CDBG

Procedures for determining income.

For each person/household receiving CDBG grant assistance, please complete income verification as prescribed below and be sure to place the documentation in the project file for 4 years after funds have been expended.

Request household income information.

Use a form signed by all adults in the household declaring income.

Use the paystubs etc (verification) as described in CFR regulations attached to determine annual anticipated income. Be sure it is timely and there are enough items to average several paystubs depending upon frequency of pay.

Use an income calculation method and note that method on the page with date of eligibility determination and signature of person calculating the income. Ex. Write out the math. $50 x 52 = $ 2,600.00 per year Forms included for your convenience.

Contact CDBG Community Development Specialist when in doubt.

Explanation of the process above has occurred at the Mandatory Sub Recipient meeting prior to program administration by your agency.

STATEMENT OF ZERO INCOME

I, ______________________________________, certify that I have zero income.

I understand that if I give incomplete information or falsify statements to the agency administering Community Development Block grant programs, I could be required to pay back all funds. I will notify the office immediately of any change in income.

____
Name (signature)

____
Address

____
City, State, Zip

____
Relationship to Head of Household

____
Date

____
Notarization

WARNING: section 1001 of Title 18 of the U.S. Code makes it a criminal offense to make willful false statements or misrepresentations to any Department or Agency of the United States as to any matter within its jurisdiction.

QUESTIONNAIRE FOR APPLICANTS/RESIDENTS WHO CLAIM ZERO INCOME

Name:
Address:

You have been shown to be at zero income on your submitted application. There are normal living expenses that continue even though you are not actively employed.

We know that there is income that is not necessary to include in the countable income. We are asking you to assist us by answering the following questions.

We are trying to make sure that countable income has not been overlooked.

1. In the past twelve months, have you had any income from any source? ☐ Yes ☐ No

2. Do you have any money in the bank, or put away somewhere? ☐ Yes ☐ No

3. Do you do any odd jobs like field work, babysitting, etc.? ☐ Yes ☐ No

4. Do your parents, children, friends, or any other person outside of your household give you help to meet your needs? ☐ Yes ☐ No If so, what kind of help and how often?

____

____

____

5. In the past months when you say you have had minimal, or no money, how did you, or do you, pay for the following:

   A. Rent? ______________________________
   B. Electricity? ______________________________
   C. Telephone? ______________________________
   D. Other utility bills? ______________________________
   E. How do you buy food? ______________________________
   F. How do you buy cleaning supplies (dish soap, laundry soap, cleaning supplies, etc.)?

   ____

   G. How do you buy paper supplies (toilet paper, paper towels, etc.)?

   ____

   H. How do you buy personal hygiene items (shaving cream, shampoo, deodorant, etc.)?

   ____

   I. Do you have a washer and dryer? ☐ Yes ☐ No
   If no, how do you pay for Laundromat expenses? ______________________________

   J. Do you smoke? ☐ Yes ☐ No If yes, how do you buy cigarettes?

   ____

EQUAL HOUSING OPPORTUNITY

QUESTIONNAIRE FOR APPLICANTS/RESIDENTS WHO CLAIM ZERO INCOME

K. Do you have cable TV? ☐ Yes ☐ No If yes, how do you pay for this service?

____

L. How do you get around?

____

If you own a car how are expenses (gas, oil, insurance, etc) paid?

____

M. Do you have payments on charge cards or charge accounts? ☐ Yes ☐ No

If yes, how are they paid? __________________________________

N. Do you have medical expenses? ☐ Yes ☐ No If yes, how are they paid?

____

Additional comments:

____

____

____

Signature of Interviewer	Signature of Applicant/Resident
Date	Date

This form is used by City of Cumberland when they have applicants for CDBG grants who claim zero income.

QUESTIONNAIRE FOR APPLICANTS/RESIDENTS WHO CLAIM ZERO INCOME

12 MONTH INCOME REPORT FOR APPLICANTS/RESIDENTS CLAIMING ZERO OR VERY LOW INCOME

Begin this report form by filling in the current month in the first column and then continue down the page with the preceding months.

Month	**Source of Income** (Employer, ADC, Support)	**Amount of Income** (Gross Amount) Self Emp., Family, Etc.)	**If Stopped, Why?**

I ☐ **Did** ☐ **Did Not** **File A Federal Income Tax Report Last Year.**

PLEASE READ:
By my signature I certify that the information I have provided above is true and complete to the best of my knowledge and belief. I understand that if I furnish false or incomplete information I can be fined or imprisoned.

Signed: ______________________ Printed Name: ______________________

Address: ______________________ Date: ______________________

EQUAL HOUSING OPPORTUNITY

QUESTIONNAIRE FOR APPLICANTS/RESIDENTS WHO CLAIM ZERO INCOME

REGULAR MONTHLY HOUSEHOLD EXPENSES

This form will be used to determine the amount of monetary support needed on a monthly basis to sustain the basic household needs and expenses for a household **that has been on minimal or zero income status for a period exceeding three months.** This form is filled out and signed by the Head of Household as indicated on the 50059.

After each heading, please fill in the average monthly expense for each item.

Please fill in each item whether or not the expense is paid by the household.

Household Expenses:

Utilities:
- Electric ________
- Gas ________
- Water & Sewer ________

Car Insurance:
- Monthly billing ________

Car Payment:
- Monthly billing ________

Gasoline:
- Monthly expense ________

Credit Cards:
- Monthly expense ________

Loan Payments:
- Monthly expense ________

Laundry:
- Supplies Expense ________
- Laundromat Expense ________

Groceries:
- Food Expense ________
- Toiletries, paper, etc. ________

Phone:
- Monthly billing ________

Cable TV:
- Monthly billing ________

Clothing:
- Monthly expense ________

Tobacco use:
- Monthly expense ________

Total Expense:
(add both columns) ________

Please read:
By my signature I certify that the information I have provided above is true and complete to the best of my knowledge and belief. I understand that if I furnish false or incomplete information I can be fined up to $10,000 or imprisoned up to five years, or lose the subsidy HUD pays and/or have my rent increased.

Signed: ______________________________ Printed Name: ______________________________

Project Name: ______________________________ Unit #: __________ Date: ______________

EQUAL HOUSING OPPORTUNITY

Samoa, the Commonwealth of the Northern Mariana Islands, the counties of Kauai, Maui, and Hawaii in the State of Hawaii, and Indian tribes that are eligible recipients under the State and Local Government Fiscal Assistance Act of 1972 and located on reservations in Oklahoma as determined by the Secretary of the Interior or in Alaskan Native Villages.

Community Development Financial Institution has the same meaning as used in the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4701 note).

Consolidated plan. The plan prepared in accordance with 24 CFR part 91, which describes needs, resources, priorities and proposed activities to be undertaken with respect to HUD programs, including the CDBG program. An approved consolidated plan means a consolidated plan that has been approved by HUD in accordance with 24 CFR part 91.

Discretionary grant means a grant made from the various Special Purpose Grants in accordance with subpart E of this part.

Entitlement amount means the amount of funds which a metropolitan city is entitled to receive under the Entitlement grant program, as determined by formula set forth in section 106 of the Act.

Extent of growth lag shall have the meaning provided in section 102(a)(12) of the Act.

Extent of housing overcrowding shall have the meaning provided in section 102(a)(10) of the Act.

Extent of poverty means the number of persons whose incomes are below the poverty level based on data compiled and published by the United States Bureau of the Census available from the latest census referable to the same point or period in time and the latest reports from the Office of Management and Budget. For purposes of this part, the Secretary has determined that it is neither feasible nor appropriate to make adjustments at this time in the computations of "extent of poverty" for regional or area variations in income and cost of living.

Family means all persons living in the same household who are related by birth, marriage or adoption.

Household means all the persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

Income. For the purpose of determining whether a family or household is low- and moderate-income under subpart C of this part, grantees may select any of the three definitions listed below for each activity, except that integrally related activities of the same type and qualifying under the same paragraph of §570.208(a) shall use the same definition of income. The option to choose a definition does not apply to activities that qualify under §570.208(a)(1) (Area benefit activities), except when the recipient carries out a survey under §570.208(a)(1)(vi). Activities qualifying under §570.208(a)(1) generally must use the area income data supplied to recipients by HUD. The three definitions are as follows:

(1)(i) "Annual income" as defined under the Section 8 Housing Assistance Payments program at 24 CFR 813.106 (except that if the CDBG assistance being provided is homeowner rehabilitation under §570.202, the value of the homeowner's primary residence may be excluded from any calculation of Net Family Assets); or

(ii) Annual income as reported under the Census long-form for the most recent available decennial Census. This definition includes:

(A) Wages, salaries, tips, commissions, etc.;

(B) Self-employment income from own nonfarm business, including proprietorships and partnerships;

(C) Farm self-employment income;

(D) Interest, dividends, net rental income, or income from estates or trusts;

(E) Social Security or railroad retirement;

(F) Supplemental Security Income, Aid to Families with Dependent Children, or other public assistance or public welfare programs;

(G) Retirement, survivor, or disability pensions; and

(H) Any other sources of income received regularly, including Veterans' (VA) payments, unemployment compensation, and alimony; or

(iii) Adjusted gross income as defined for purposes of reporting under Internal Revenue Service (IRS) Form 1040 for individual Federal annual income tax purposes.

(2) Estimate the annual income of a family or household by projecting the prevailing rate of income of each person at the time assistance is provided for the individual, family, or household (as applicable). Estimated annual income shall include income from all family or household members, as applicable. Income or asset enhancement derived from the CDBG-assisted activity shall not be considered in calculating estimated annual income.

Indian tribe shall have the meaning provided in section 102(a)(17) of the Act.

Low- and moderate-income household means a household having an income equal to or less than the Section 8 low-income limit established by HUD.

Low- and moderate-income person means a member of a family having an income equal to or less than the Section 8 low-income limit established by HUD. Unrelated individuals will be considered as one-person families for this purpose.

Low-income household means a household having an income equal to or less than the Section 8 very low-income limit established by HUD.

Low-income person means a member of a family that has an income equal to or less than the Section 8 very low-income limit established by HUD. Unrelated individuals shall be considered as one-person families for this purpose.

Metropolitan area shall have the meaning provided in section 102(a)(3) of the Act.

Metropolitan city shall have the meaning provided in section 102(a)(4) of the Act.

Microenterprise shall have the meaning provided in section 102(a)(22) of the Act.

Moderate-income household means a household having an income equal to or less than the Section 8 low-income limit and greater than the Section 8 very low-income limit, established by HUD.

Moderate-income person means a member of a family that has an income equal to or less than the Section 8 low-income limit and greater than the Section 8 very low-income limit, established by HUD. Unrelated individuals shall be considered as one-person families for this purpose.

Nonentitlement amount means the amount of funds which is allocated for use in a State's nonentitlement areas as determined by formula set forth in section 106 of the Act.

Nonentitlement area shall have the meaning provided in section 102(a)(7) of the Act.

Population means the total resident population based on data compiled and published by the United States Bureau of the Census available from the latest census or which has been upgraded by the Bureau to reflect the changes resulting from the Boundary and Annexation Survey, new incorporations and consolidations of governments pursuant to §570.4, and which reflects, where applicable, changes resulting from the Bureau's latest population determination through its estimating technique using natural changes (birth and death) and net migration, and is referable to the same point or period in time.

Small business means a business that meets the criteria set forth in section 3(a) of the Small Business Act (15 U.S.C. 631, 636, 637).

State shall have the meaning provided in section 102(a)(2) of the Act.

Unit of general local government shall have the meaning provided in section 102(a)(1) of the Act.

Urban county shall have the meaning provided in section 102(a)(6) of the Act. For the purposes of this definition, HUD will determine whether the county's combined population contains the required percentage of low- and moderate-income persons by identifying the number of persons that resided in applicable areas and units of general local government based on data from the most recent decennial census, and using income limits that would have applied for the year in which that census was taken.

Urban Development Action Grant (UDAG) means a grant made by the

CHAPTER 5. DETERMINING INCOME AND CALCULATING RENT

5-1 Introduction

A. Owners must determine the amount of a family's income before the family is allowed to move into assisted housing and at least annually thereafter. The amount of assistance paid on behalf of the family is calculated using the family's annual income less allowable deductions. HUD program regulations specify the types and amounts of income and deductions to be included in the calculation of annual and adjusted income.

B. Although the definitions of annual and adjusted income used for the programs covered in this handbook have some similarities with rules used by the U.S. Internal Revenue Service (IRS), the tax rules are different from the HUD program rules.

C. The most frequent errors encountered in reviews of annual and adjusted income determinations in tenant files fall in three categories:

1. Applicants and tenants failing to fully disclose income information;
2. Errors in identifying required income exclusions; and
3. Incorrect calculations of deductions often resulting from failure to obtain third-party verification.

Careful interviewing and thorough verification can minimize the occurrence of these errors.

D. Chapter 5 is organized as follows:

- **Section 1: Determining Annual Income** discusses the requirements regarding annual income and the procedure for calculating a family's annual income when determining eligibility. This section also includes guidance on determining income from assets.
- **Section 2: Determining Adjusted Income** describes the procedures and requirements for determining adjusted income based on allowable deductions.
- **Section 3: Verification** presents the requirements for verifying information provided by applicants and tenants related to their eligibility.
- **Section 4: Calculating Tenant Rent** discusses the methods for calculating the tenant's portion of rent under the different programs covered by this handbook.

5-2 Key Terms

A. There are a number of technical terms used in this chapter that have very specific definitions established by federal statute or regulations, or by HUD. These terms are listed in Figure 5-1 and their definitions can be found in the Glossary to this handbook. It is important to be familiar with these definitions when reading this chapter.

B. The terms "disability" and "persons with disabilities" are used in two contexts – for civil rights protections, and for program eligibility purposes. Each use has specific definitions.

1. When used in context of protection from discrimination or improving the accessibility of housing, the civil rights-related definitions apply.

2. When used in the context of eligibility under multifamily subsidized housing programs, the program eligibility definitions apply.

NOTE: See the Glossary for specific definitions and paragraph 2-23 for an explanation of this difference.

Figure 5-1: Key Terms

• Adjusted income	• Live-in aide
• Annual income	• Low-income family
• Assets	• Market rent
• Assistance payment	• Minimum rent
• Assisted rent	• Operating rent
• Assisted tenant	• Project Assistance Contract (PAC)
• Basic rent	• PRAC Operating Rent
• Co-head of household	• Project Rental Assistance Contract (PRAC)
• Contract rent	• Project assistance payment
• Dependent	• Project rental assistance payment
• Extremely low-income family	• Tenant rent
• Foster adult	• Total tenant payment
• Foster children	• Unearned income
• Full-time student	• Utility allowance
• Gross rent	• Utility reimbursement
• Hardship exemption	• Very low-income family
• Head of household	• Welfare assistance
• Housing assistance payment (HAP)	• Welfare rent
• Income limit	

Section 1: Determining Annual Income

5-3 Key Regulations

This paragraph identifies the key regulatory citation pertaining to Section 1: Determining Annual Income. The citation and its title are listed below.

- 24 CFR 5.609 Annual Income

5-4 Key Requirements

A. Annual income is the amount of income that is used to determine a family's eligibility for assistance. Annual income is defined as follows:

1. All amounts, monetary or not, that go to or are received on behalf of the family head, spouse or co-head (even if the family member is temporarily absent), or any other family member; or

2. All amounts anticipated to be received from a source outside the family during the 12-month period following admission or annual recertification effective date.

B. Annual income includes all amounts that are not specifically excluded by regulation. Exhibit 5-1, Income Inclusions and Exclusions, provides the complete list of income inclusions and exclusions published in the regulations and *Federal Register* notices.

C. Annual income includes amounts derived (during the 12-month period) from assets to which any member of the family has access.

5-5 Methods for Projecting and Calculating Annual Income

A. The requirements for determining whether a family is eligible for assistance, and the amount of rent the family will pay, require the owner to project or estimate the annual income that the family expects to receive. There are several ways to make this projection. The following are two acceptable methods for calculating the annual income anticipated for the coming year:

1. Generally the owner must use current circumstances to anticipate income. The owner calculates projected annual income by annualizing *current* income. Income that may not last for a full 12 months (e.g., unemployment compensation) should be calculated assuming current circumstances will last a full 12 months. If changes occur later in the year, an interim recertification can be conducted to change the family's rent.

2. If information is available on changes expected to occur during the year, use that information to determine the total *anticipated* income from all known sources during the year**. For example, if a verification source reports that a union contract calls for a 2% pay increase midway through

the year, the owner may add the total income for the months before, and the total for the months after the increase**.

Example – Calculating Anticipated Annual Income

A teacher's assistant works nine months annually and receives $1,300 per month. During the summer recess, the teacher's assistant works for the Parks and Recreation Department for $600 per month. The owner may calculate the family's income using either of the following two methods:

1. Calculate annual income based on current income: $15,600 ($1,300 x 12 months).

   The owner would then conduct an interim recertification at the end of the school year to recalculate the family's income during the summer months at reduced annualized amount of $7,200 ($600 x 12 months). The owner would conduct another interim recertification when the tenant returns to the nine-month job.

2. Calculate annual income based on anticipated changes through the year:

$11,700	($1,300 x 9 months)
+ 1,800	($ 600 x 3 months)
$13,500	

   Using the second method, the owner would not conduct an interim re-examination at the end of the school year. In order to use this method effectively, history of income from all sources in prior years should be available.

B. Once all sources of income are known and verified, owners must convert reported income to an annual figure. Convert periodic wages to annual income by multiplying:

1. Hourly wages by the number of hours worked per year (2,080 hours for full-time employment with a 40-hour week and no overtime);
2. Weekly wages by 52;
3. Bi-weekly wages (paid every other week) by 26;
4. Semi-monthly wages (paid twice each month) by 24; and
5. Monthly wages by 12.

To annualize other than full-time income, multiply the wages by the actual number of hours or weeks the person is expected to work.

Example – Anticipated Increase in Hourly Rate

February 1	Certification effective date
$7.50/hour	Current hourly rate
$8.00/hour	New rate to be effective March 15

(40 hours per week x 52 weeks = 2,080 hours per year)

February 1 through March 15 =	6 weeks
6 weeks x 40 hours =	240 hours
2,080 hours minus 240 hours =	1,840 hours

(check: 240 hours + 1,840 hours = 2,080 hours)

Annual Income is calculated as follows:

240 hours x $7.50 =	$1,800	
$1,840 hours x $8.00 =	$14,720	
Annual Income		$16,520

(See **Appendix 8** for an explanation of the correct approach to rounding numbers.)

C. Some circumstances present more than the usual challenges to estimating anticipated income. Examples of challenging situations include a family that has sporadic work or seasonal income or a tenant who is self-employed. In all instances, owners are expected to make a reasonable judgment as to the most reliable approach to estimating what the tenant will receive during the year. In many of these challenging situations, midyear or interim recertifications may be required to reflect changing circumstances. Some examples of approaches to more complex situations are provided below.

Examples – Irregular Employment Income

<u>Seasonal work</u>. Clyde Kunkel is a roofer. He works from April through September. He does not work in rain or windstorms. His employer is able to provide information showing the total number of regular and overtime hours Clyde worked during the past three years. To calculate Clyde's anticipated income, use the average number of regular hours over the past three years times his current regular pay rate, and the average overtime hours times his current overtime rate.

<u>Sporadic work</u>. Justine Cowan is not always well enough to work full-time. When she is well, she works as a typist with a temporary agency. Last year was a good year and she worked a total of nearly six months. This year, however, she has more medical problems and does not know when or how much she will be able to work. Because she is not working at the time of her recertification, it will be best to exclude her employment income and remind her that she must return for an interim recertification when she resumes work.

Examples – Irregular Employment Income

Sporadic work. Sam Daniels receives social security disability. He reports that he works as a handyman periodically. He cannot remember when or how often he worked last year: he says it was a couple of times. Sam's earnings appear to fit into the category of nonrecurring, sporadic income that is not included in annual income. Tell Sam that his earnings are not being included in annual income this year, but he must report to the owner any regular work or steady jobs he takes.

Self-employment income. Mary James sells beauty products door-to-door on consignment. She makes most of her money in the months prior to Christmas but has some income throughout the year. She has no formal records of her income other than a copy of the IRS Form 1040 she files each year. With no other information available, the owner will use the income reflected on Mary's copy of her form 1040 as her annual income.

5-6 Calculating Income—Elements of Annual Income

A. Income of Adults and Dependents

1. Figure 5-2 summarizes whose income is counted.

2. Adults. Count the annual income of the head, spouse or co-head, and other adult members of the family. In addition, persons under the age of 18 who have entered into a lease under state law are treated as adults, and their annual income must also be counted. These persons will be either the head, spouse, or co-head; they are sometimes referred to as emancipated minors.

   NOTE: If an emancipated minor is residing with a family as a member other than the head, spouse, or co-head, the individual would be considered a dependent and his or her income handled in accordance with subparagraph 3 below.

3. Dependents. A dependent is a family member who is under 18 years of age, is disabled, or is a full-time student

   The head of the family, spouse, co-head, foster child, or live-in aide are never dependents. Some income received on behalf of family dependents is counted and some is not.

   a. *Earned* income of minors (family members under 18) is not counted.

   b. Benefits or other *unearned* income of minors is counted.

Figure 5-2: Whose Income is Counted?

Members	**Employment Income**	**Other Income (including income from assets)**
Head	Yes	Yes
Spouse	Yes	Yes
Co-head	Yes	Yes
Other adult *(including foster adult)*	Yes	Yes
Dependents		
-Child under 18	No	Yes
Full-time student over 18	See Note	Yes
*Foster child under 18	No	Yes*
Nonmembers		
Live-in aide	No	No

NOTE: The earned income of a full-time student 18 years old or older who is a dependent is excluded to the extent that it exceeds $480.

c. When more than one family shares custody of a child and both families live in assisted housing, only one family at a time can claim the dependent deduction. The family that counts the dependent deduction also counts the unearned income of the child. The other family claims neither the dependent deduction nor the unearned income of the child.

d. When full-time students who are 18 years of age or older are dependents, a small amount of their earned income will be counted. Count only earned income up to a maximum of $480 per year for full-time students, age 18 or older, who are not the head of the family or spouse or co-head. If the income is less than $480 annually, count all the income. If the annual income exceeds $480, count $480 and exclude the amount that exceeds $480.

e. The income of full-time students 18 years of age or older who are members of the household but away at school is counted the same as the income for other full-time students. The income of minors who are members of the household but away at school is counted as the income for other minors.

f. All income of a full-time student, 18 years of age or older, is counted if that person is the head of the family, spouse, or co-head.

g. Payments received by the family for the care of foster children or foster adults are *not* counted. This rule applies only to payments made through the official foster care relationships with local welfare agencies.

h. Adoption assistance payments in excess of $480 are not counted.

B. **Income of Temporarily Absent Family Members**

1. Owners must count all income of family members approved to reside in the unit, even if some members are temporarily absent.

2. If the owner determines that an absent person is no longer a family member, the individual must be removed from the lease and the HUD-50059.

3. A temporarily absent individual on active military duty must be removed from the family, and his or her income must not be counted unless that person is the head of the family, spouse, or co-head.

   a. However, if the spouse or a dependent of the person on active military duty resides in the unit, that person's income must be counted in full, even if the military member is not the head, or spouse of the head of the family.

   b. The income of the head, spouse, or co-head will be counted even if that person is temporarily absent for active military duty.

Examples – Income of Temporarily Absent Family Members

- John Chouse works as an accountant. However, he suffers from a disability that periodically requires lengthy stays at a rehabilitation center. When he is confined to the rehabilitation center, he receives disability payments equaling 80% of his usual income.

  During the time he is not in the unit, he will continue to be considered a family member. The owner will conduct an interim recertification. Even though he is not currently in the unit, his total disability income will be counted as part of the family's annual income.

- Mirna Martinez accepts temporary employment in another location and needs a portion of her income to cover living expenses in the new location. The full amount of the income must be included in annual income.

- Charlotte Paul is on active military duty. Her permanent residence is her parents' assisted unit where her husband and children live. Charlotte is not currently exposed to hostile fire. Therefore, because her spouse and children are in the assisted unit, her military pay must be included in annual income. (If her dependents or spouse were not in the unit, she would not be considered a family member and her income would not be included in annual income.)

C. ***Deployment of Military Personnel to Active Duty**

Owners are encouraged to be as lenient as responsibly possible to support affected households in situation where persons are called to active duty in the Armed Forces. Specific actions that owners should undertake to support military households include, but are not limited to:*

1. *Allow a guardian to move into the assisted unit on a temporary basis to provide care for any dependents the military person leaves in the unit. Income of the guardian temporarily living in the unit for this purpose is not counted as income.

2. Allow a tenant living in an assisted unit to provide care for any dependents of persons called to active duty in the Armed Forces on a temporary basis, as long as the head and/or co-head of household continues to serve in active duty. Income of the child (e.g., SSI benefits, military benefits) is not counted as income of the person providing the care.

3. Exclude from annual income special pay received by a household member serving in the Armed Services who is exposed to hostile fire (see Exhibit 5-1).

4. Give consideration for any case involving delayed payment of tenant rent. Determine whether it is appropriate to accept a late payment.

5. Allow the assistance payment and the lease to remain in effect for a reasonable period of time (depending on the length of deployment) beyond that required by the Soldiers' and Sailors' Civil Relief Act of 1940, 50 U.S.C. §§ 501-591, even though the adult members of the military family are temporarily absent from the assisted unit.*

D. Income of Permanently Confined Family Members

1. An individual permanently confined to a nursing home or hospital may not be named as family head, spouse, or co-head but may continue as a family member at the family's discretion. The family's decision on whether or not to include the permanently confined family member as a family member determines if that person's income will be counted.

   a. *Include* the individual as a family member and the income and allowable deductions related to the medical care of the permanently confined individual are counted; or

   b. *Exclude* the individual as a family member and the income and allowances based on the medical care of the permanently confined individual are not counted.

2. If the family elects to include the permanently confined member, the individual is listed on the HUD-50059 as an adult who is not the head, spouse, or co-head, even when the permanently confined family member is married to the person who is or will become the head of the family. The owner should consider extenuating circumstances that may prevent the confined member from being able to sign the HUD-50059. If the owner determines the confined member is unable to sign the HUD-50059,

the owner must document the file why the signature was not obtained. If the family elects not to include the permanently confined member, the individual would not be listed on the HUD-50059.**

E. **Educational Scholarships or Grants**

All forms of student financial assistance (grants, scholarships, educational entitlements, work study programs, and financial aid packages) are excluded from annual income **except for students receiving Section 8 assistance.** This is true whether the assistance is paid to the student or directly to the educational institution

For students receiving Section 8 assistance, all financial assistance a student receives (1) under the Higher Education Act of 1965, (2) from private sources, or (3) from an institution of higher education that is in excess of amounts received for tuition is included in annual income except if the student is over the age of 23 with dependent children or the student is living with his or her parents who are receiving Section 8 assistance. See Paragraph 3-13 for further information on eligibility of students to receive Section 8 assistance and the Glossary for the definition of Student Financial Assistance.

F. **Alimony or Child Support**

Owners must count alimony or child support amounts awarded by the court unless the applicant certifies that payments are not being made *and* that he or she has taken all reasonable legal actions to collect amounts due, including filing with the appropriate courts or agencies responsible for enforcing payment.

1. The owner may accept printouts from the court or agency responsible for enforcing support payments, or other evidence indicating the frequency and amount of support payments actually received.

2. Child support paid to the custodial parent through a state child support enforcement or welfare agency may be included in the family's monthly welfare check and may be designated in different ways. In some states these payments are not identified as separate from the welfare grant. In these states, it is important to determine which portion is child support and not to count it twice. In other states, the payment may be listed as child support or as "pass-through" payments. These amounts must be counted as annual income.

3. When no documentation of child support, divorce, or separation is available, either because there was no marriage or for another reason, the owner may require the family to sign a certification stating the amount of child support received.

G. **Regular Cash Contributions and Gifts**

1. Owners must count as income any regular contributions and gifts from persons not living in the unit. These sources may include rent and utility

payments paid on behalf of the family, and other cash or noncash contributions provided on a regular basis.

Examples – Regular Cash Contributions

- The father of a young single parent pays her monthly utility bills. On average he provides $100 each month. The $100 per month must be included in the family's annual income.
- The daughter of an elderly tenant pays her mother's $175 share of rent each month. The $175 value must be included in the tenant's annual income.

2. Groceries and/or contributions paid directly to the childcare provider by persons not living in the unit <u>are excluded</u> from annual income.

3. Temporary, nonrecurring, or sporadic income (including gifts) is <u>not counted</u>.

H. Income from a Business

When calculating annual income, owners must include the net income from operation of a business or profession including self-employment income. Net income is gross income less business expenses, interest on loans, and depreciation computed on a straight-line basis.

1. In addition to net income, owners must count any salaries or other amounts distributed to family members from the business, and cash or assets withdrawn by family members, except when the withdrawal is a reimbursement of cash or assets invested in the business.

2. When calculating net income, owners must not deduct principal payments on loans, interest on loans for business expansion or capital improvements, other expenses for business expansion, or outlays for capital improvements.

3. If the net income from a business is negative, it must be counted as zero income. A negative amount must not be used to offset other family income.

I. **Periodic Social Security Payments

Count the gross amount, before deductions for Medicare, etc., of periodic Social Security payments. Include payments received by adults on behalf of individuals under the age of 18 or by individuals under the age of 18 for their own support.**

J. **Adjustments for Prior Overpayment of Benefits**

If an agency is reducing a family's benefits to adjust for a prior overpayment (e.g., social security, SSI, TANF, or unemployment benefits), count the amount that is actually provided after the adjustment.

> **Example – Adjustment for Prior Overpayment of Benefits**
>
> Lee Park's social security payment of $250 per month is being reduced by $25 per month for a period of six months to make up for a prior overpayment. Count his social security income as $225 per month for the next six months and as $250 per month for the remaining six months.

K. **Public Assistance Income in As-Paid Localities**

1. Special calculations of public assistance income are required for "as-paid" state, county, or local public assistance programs. An "as-paid" system is one:

   a. In which the family receives an amount from a public agency specifically for shelter and utilities; and

   b. In which the amount is adjusted based upon the actual amount the family pays for shelter and utilities.

2. The public assistance amount specifically designated for rent and utilities is called the "welfare rent."

3. To determine annual income for public assistance recipients in "as-paid" localities, include the following:

   a. The amount of the family's grant for other than shelter and utilities; and

   b. The maximum amount the welfare department can pay for shelter and utilities for a family of that size (i.e., the welfare rent). This may be different from the amount the family is actually receiving.

4. Each as-paid locality works somewhat differently, and many are subject to court-ordered modifications to the basic policy. Owners should discuss how the rules are applied with the HUD Field Office.

Example – Welfare Income in "As Paid" Localities

At application, a family's welfare grant is $300, which includes $125 for basic needs and $175 for shelter and utilities (based upon where the family is now living). However, the maximum the welfare agency could allow for shelter and utilities for this size family is $190.

Count the following as income:

$125	Amount family receives for basic needs
<u>$190</u>	Maximum for shelter and utilities
$315	Monthly public assistance income

L. **Periodic Payments from Long-Term Care Insurance, Pensions, Annuities, and Disability or Death Benefits**

1. The full amount of periodic payments from annuities, insurance policies, retirement funds, pensions, and disability or death benefits is included in annual income. (See subparagraph O below for information on the withdrawal of cash or assets from an investment.) Payments such as Black Lung Sick Benefits, Veterans Disability, and Dependent Indemnity Compensation for the Widow of a Killed in Action Serviceman are examples of such periodic payments.

2. Withdrawals from retirement savings accounts such as Individual Retirement Accounts and 401K accounts that are not periodic payments do not fall in this category and are not counted in annual income (see paragraph 5.7 G.4).

Example – Withdrawals from IRAs or 401K Accounts

Isaac Freeman retired recently. He has an IRA account but is not receiving periodic payments from it because his pension is adequate for his routine expenses. However, he has withdrawn $2,000 for a trip with his children. The withdrawal is not a periodic payment and is not counted as income.

3. If the tenant is receiving long-term care insurance payments, any payments in excess of $180 per day must be counted toward the gross annual income. (**NOTE:** Payment of long-term care insurance premiums are an eligible medical expense – see paragraph 5-10 D.8.k.)

4. *Federal Government/Uniformed Services pension funds paid to a former spouse.*

Federal Government/Uniformed Services pension funds paid directly to an applicant's/tenant's former spouse pursuant to the terms of a court decree of divorce, annulment, or legal separation are not counted as annual income. The state court has, in the settlement of the parties' marital assets, determined the extent to which each party shares in the ownership of the pension. That portion of the pension that is ordered by the court (and authorized by the Office of Personnel Management (OPM), to be paid to the applicant's/tenant's former spouse is no longer an asset of the applicant/tenant and therefore is not counted as income. However, any pension funds authorized by OPM, pursuant to a court order, to be paid to the former spouse of a Federal government employee is counted as income for a tenant/applicant receiving such funds.

Example: Joan Carson is a retired Federal government employee receiving a retirement pension. She is also the recipient of Section 8 housing assistance and involved in a divorce proceeding. In settling the assets of the marriage between Mrs. Carson and her former husband, the court ordered that one half of her pension be paid directly to her former husband in the amount of $20,000. The court provided OPM with clear, specific and express instructions acceptable for OPM to process the payment to Mrs. Carson's former husband. OPM authorized the payment of pension benefits to Mrs. Carson's former husband in the amount of $20,000. The $20,000 represents an asset disposed of as a result of a court decree. At the interim reexamination of her income, Mrs. Carson indicated a change in her income due to the court ordered payment of pension benefits to her former husband. The PHA requested that Mrs. Carson provide a copy of her statement from OPM evidencing the payment of pension benefits to her (her statement reflected the line item payment to her former husband due to the court order). That portion of the pension paid to her former husband no longer belongs to Mrs. Carson and is not counted as income.

The OPM is responsible for handling court orders (any judgments or property settlements issued by or approved by any court of any state, the District of Columbia, the Commonwealth of Puerto Rico, Guam, The Northern Mariana Islands, or the Virgin Islands in connection with the divorce, annulment of marriage, or legal separation of a Federal government employee or retiree) affecting current and retired Federal government employees. See 5 C.F.R. § 838.103. OPM must comply with court orders, decrees, or court-approved property settlement agreements in connection with divorces, annulments of marriage, or legal separations of employees that award a portion of the former Federal government employee's retirement benefits. Id. at § 838.101(a)(1). State courts ordering a judgment or property settlement in connection with divorce, annulment of marriage, or legal separation have the responsibility of issuing clear, specific, and express instructions to OPM with regards to providing benefits to former spouses. Id. at § 838.122. In response to instructions from state courts, OPM will authorize payments to the former spouses. Id. at § 838.121. Once the payments have been authorized by OPM, the reduced pension amount paid to the retired Federal employee (the tenant/applicant) will be reflected in the tenant's/applicant's statement from OPM. Former spouses of Federal government employees receiving court ordered pension benefits are provided a Form-1099 reflecting pension benefits received from the retired Federal government employee. In verifying the income of tenants/applicants, owners should require that tenants/applicants provide any copies of statements from OPM verifying pension benefits (including any reductions pursuant to a court order, decree or court-approved property settlement agreement), and any evidence of survivor benefits, pensions or annuities received from retired Federal government employees including, but not limited to, a Form-1099. (See Paragraph 5-7.G.5 for more information on the treatment of income from Federal government pensions.)

5. *Other State, local government, social security or private pensions paid to a former spouse.

   Other state, local government, social security or private pension funds paid directly to an applicant's/tenant's former spouse pursuant to the terms of a court decree of divorce, annulment, or legal separation are also not counted as annual income and should be handled in the same manner as 4, above. The decree and copies of statements should be obtained in order to verify the net amount of the pension that should be applied in order to determine eligibility and calculate rent.*

M. Income from Training Programs

1. Amounts received under HUD-funded training programs are excluded from annual income.

2. Incremental earnings and benefits received by any family member due to participation in qualifying state or local employment training programs are excluded. Income from training programs not affiliated with a local government, and income from the training of a family member resident to serve on the management staff, is also excluded.

   a. Excluded income must be received under employment training programs with clearly defined goals and objectives and for a specific, limited time period. The initial enrollment must not exceed one year, although income earned during extensions for additional specific time periods may also be eligible for exclusion

   b. Training income may be excluded only for the period during which the family member participates in the employment training program.

   c. Exclusions include stipends, wages, transportation or child care payments, or reimbursements.

d. Income received as compensation for employment is excluded only if the employment is a component of a job training program. Once training is completed, the employment income becomes income that is counted.

e. Amounts received during the training period from sources that are unrelated to the job training program, such as welfare benefits, social security payments, or other employment, are not excluded.

2. Owners may ask to use project funds or funds from the Residual Receipts account to underwrite all or a portion of the cost of developing, maintaining, and managing a job training program for project residents if funds are available.

a. The Field Office will make the determination if the job training program may be approved, and if project funds are sufficient to fund the job training program and maintain the physical and financial integrity of the project. Job training programs may be either on-site at the project or off-site. For example, job training programs that have partnerships with local colleges, community based organizations, or local business, may have in-house job training programs designed for project residents.

b. Funds that an owner may choose to use to underwrite a job training program may include Section 8 funds, Community Development Block Grant funds, or housing authority funds. These funds may be used to cover the costs of various components of a job training program, including course materials, computer software, computer hardware, or personnel costs. Also, contractors and subcontractors, in connection with work performed under a Flexible Subsidy contract, may elect to hire project residents to perform certain skills required under the contract. If the employment of the project residents was pursuant to an apprenticeship program, this could constitute a training program using HUD funds, and income received by the tenants in the apprenticeship program will qualify as an exclusion from income.

N. Resident Services Stipends

Resident services stipends are generally modest amounts of money received by residents for performing services such as hall monitoring, fire patrol, lawn maintenance, and resident management.

1. If the resident stipend exceeds $200 per month, owners must include the entire amount in annual income.

2. If the resident stipend is $200 or less per month, owners must exclude the resident services stipend from annual income.

O. **Income Received by a Resident of an Intermediate Care Facility for the Mentally Retarded or for the Developmentally Disabled (ICF/MR or ICF/DD) and Assisted Living Units in Elderly Projects**

1. An intermediate care facility is a group home for mentally retarded or developmentally disabled individuals (ICF/MR or ICF/DD). The term "intermediate care facility" is one used by state mental health departments for group homes serving these residents.

2. Assisted living units are units in projects developed for elderly residents with project-based assistance that have been converted to assisted living units.

3. The local agency responsible for Medicaid provides funds directly to group home operators and assisted living providers for services.

4. Annual income at an ICF/MR, ICF/DD, or assisted living unit must include:

    a. The SSI payment a tenant receives or the facility receives on behalf of the tenant; plus

    b. All other income the tenant receives from sources other than SSI that are not excluded from income by HUD regulations (see Exhibit 5-1). Examples of other sources of income include wages, pensions, income from sheltered workshops, income from a trust, or other interest income.

    c. The personal allowance of an individual residing in an ICF/MR or ICF/DD is not included in annual income. If the owner is unable to determine the actual amount of the personal allowance, use $30.

5. Annual income does not include the enhanced benefit portion of the SSI that is provided to pay for services. In some instances, a resident's SSI income may be reduced between annual recertifications if the resident's earnings exceed a specified amount. If this happens, the resident may request an interim recertification.

P. **Withdrawal of Cash or Assets from an Investment**

The withdrawal of cash or assets from an investment received as periodic payments should be counted as income. **Lump sum receipts from pension and retirement funds are counted as assets. If benefits are received through periodic payments, do not count any remaining amounts in the account as an asset. See Paragraph 5-7 G.2 for guidance on calculating income from an asset.**

Q. **Lump Sum Payments Counted as Income**

1. Generally, lump sum amounts received by a family, such as inheritances, insurance settlements, or proceeds from sale of property are considered assets, not income.

2. When social security or SSI benefit income is paid in a lump sum as a result of deferred periodic payments, that amount is *excluded* from annual income.

3. Settlement payments from claim disputes over welfare, unemployment, or similar benefits may be counted as assets, but lump sum payments caused by *delays in processing* periodic payments for unemployment or welfare assistance are included as income.

   How lump sum payments for delayed start of benefits are counted depends upon the following:

   a. When the family reports the change;

   b. When an interim re-examination is conducted; and

   c. Whether the family's income increases or decreases as a result.

   A lump sum payment resulting from delayed benefit income may be treated in either of the two ways illustrated in the example shown in Figure 5-3.

4. Lottery winnings paid in one payment are treated as assets. Lottery winnings *paid in periodic payments* must be counted as income.

Figure 5-3: Treatment of Delayed Benefit Payments Received in a Lump Sum

Family member loses his/her job on October 19 and applies for unemployment benefits. The family receives a lump sum payment of $700 in December to cover the period from 10/20 to 12/5 and begins to receive $100 a week effective 12/6.

Option A: The owner processes one interim re-examination immediately effective 11/1 and a second interim after unemployment benefits are known.

	10/1	11/1	12/1	1/1	2/1
Monthly gross income	800	*0	*0	492**	492**
Monthly allowances (three minors x 480 / 12 months)	120	-	-	120	120
Monthly adjusted income	680	0	0	372	372
Total tenant payment (TTP)	204	25	25	25***	112***

* The family's income is calculated at $0/month beginning November 1, continuing until benefits actually begin and new income is calculated. TTP is set at the minimum rent.

** Family's actual income for 1/1 is $100/week x 52 weeks = $5,200 / 12 = $433.

However, because the family's TTP was calculated at zero income for the months of November and December (the period eventually covered by the $700 lump sum payment), the annual income to be used in calculating monthly gross income should be as follows:

$100/week benefit x 52 weeks = $5,200 + $700 lump sum payment = $5,900 annual gross income/ 12 = $492.

*** Increased rent does not start until 2/1 in order to give the family notice of rent increase.

Option B: The owner processes one interim re-examination after unemployment benefits are known.

	10/1	11/1	12/1	1/1	2/1
Monthly gross income	800	0/800*	0/800*	433*	433*
Monthly allowances (three minors x 480 / 12 Months)	120	120	120	120	120
Monthly adjusted income	680	0/680	0/680	313	313
Total tenant payment	204	204*	204*	94	94
Recalculated TTP	-	94***	94*	94	94
Rent credit (204 – 94=)	-	110	110	-	-

* Family's actual income for 11/1 and 12/1 is zero, but because the owner does not process an interim re-examination, the family's TTP continues to be calculated using $800 as monthly gross income. Beginning 1/1, monthly gross income is known to be $100/week, or $433/month.

** The lump sum payment is taken into account by making the recertification retroactive to 11/1. Annual income is calculated as $5,200 / 12 = $433 monthly gross income.

*** TTP for November and December recalculated as $433 monthly gross income and $313 monthly adjusted income x .30 = 94 with credit or refund to family of $110/month for each of these two months for difference between TTP paid of $204 and recalculated TTP of $94.

R. Exclusions from Income

1. Regulations for the multifamily subsidized housing programs covered by this handbook specifically exclude certain types of income from annual income. However, many of the items listed as exclusions from annual income under HUD requirements are items that the IRS includes as taxable income. Therefore, it is important for owners to focus specifically on the HUD program requirements regarding annual income.

2. Among the items that are excluded from annual income are the value of food provided through:

   a. The Meals on Wheels program, food stamps, or other programs that provide food for the needy;

   b. Groceries provided by persons not living in the household; and

   c. Amounts received under the School Lunch Act and the Child Nutrition Act of 1966, including reduced lunches and food under the Special Supplemental Food Program for Women, Infants and Children (WIC).

Examples – Income Exclusions

- The Value of Food Provided through the Meals on Wheels Program or Other Programs Providing Food for the Needy. Jack Love receives a hot lunch each day during the week in the community room and an evening meal in his apartment. One meal is provided through the Meals on Wheels program. A local church provides the other. The value of the meals he receives is not counted as income.
- Groceries provided by persons not living in the household. Carrie Sue Colby's mother purchases and delivers groceries each week for Carrie Sue and her two year old. The value of these groceries is not counted as income despite the fact that these are a regular contribution or gift.
- Amounts Received Under WIC or the School Lunch Act. Lydia Jeffries' two children receive a free breakfast and reduced priced lunches at school every day through the Special Supplemental Food Program for Women, Infants and Children (WIC). The value of this food is not counted as income.

**

3. Some additional examples of income that is excluded from the calculation of annual income follow.

Examples – Income Exclusions

- Resident service stipends. Rich Fuller receives $50 a month for distributing flyers for management. This amount is excluded from annual income.

- Deferred periodic payments of social security benefits. Germain Johnson received $32,000 in deferred social security benefits following a lengthy eligibility dispute. This delayed payment of social security benefits is treated as an asset, not as income.

- Income from training programs. Jennifer Jones is participating in a qualified state-supported employment training program every afternoon to learn improved computer skills. Each morning, she continues her regular job as a typist. The $250 a week she receives as a part-time typist is included in annual income. The $150 a week she receives for participation in the training program is excluded in annual income.

- Earned Income Tax Credit refund payments. Mary Frances Jackson is eligible for an earned income tax credit. She receives payments from her employer each quarter because of the tax credit. These payments are excluded in annual income.

**

5-7 Calculating Income from Assets

Annual income includes amounts derived from assets to which family members have access.

A. What is Considered to Be an Asset?

1. Assets are items of value that may be turned into cash. A savings account is a cash asset. The bank pays interest on the asset. The interest is the *income* from that asset.

2. Some tenants have assets that are not earning interest. A quantity of money under a mattress is an asset: it is a thing of value that could be used to the benefit of the tenant, but under the mattress it is not producing income.

3. Some belongings of value are not considered assets. Necessary personal property is not counted as an asset. Exhibit 5-2 summarizes the items that are considered assets and those that are not.

B. Determining Income from Assets

Note: For families receiving only BMIR assistance, it is not necessary to determine whether family assets exceed $5,000. The rule for imputing income from assets does not apply to the BMIR program.

1. The calculation to determine the amount of income from assets to include in annual income considers both of the following:

   a. The total cash value of the family's assets; and

   b. The amount of income those assets are earning or could earn.

2. The rule for calculating income from assets differs depending on whether the total cash value of family assets is $5,000 or less, or is more than $5,000.

C. **Determining the Total Cash Value of Family Assets**

1. To comply with the rule for determining the amount of income from assets, it is necessary to first determine whether the total "cash value" of family assets exceeds $5,000.

   a. The "cash value" of an asset is the market value less reasonable expenses that would be incurred in selling or converting the asset to cash, such as the following:

      (1) Penalties for premature withdrawal;

      (2) Broker and legal fees; and

      (3) Settlement costs for real estate transactions.

   The cash value is the amount the family could actually receive in cash, if the family converted an asset to cash.

Example – Calculating the Cash Value of an Asset

A family has a certificate of deposit (CD) in the amount of $5,000 paying interest at 4%. The penalty for early withdrawal is three months of interest.

$5,000 x 0.04 = $200 in annual income

$200/12 months = $16.67 interest per month

$16.67 x 3 months = $50.01

$5,000 - $50 = $4,950 cash value of CD

   b. It is essential to note that a family is not required to convert an asset to cash. Determining the cash value of the asset is done simply as a calculation by the owner because it is a required step when determining income from assets under program requirements.

D. **Assets Owned Jointly**

1. If assets are owned by more than one person, prorate the assets according to the percentage of ownership. If no percentage is specified or provided by a state or local law, prorate the assets evenly among all owners.

2. If an asset is not effectively owned by an individual, do not count it as an asset. An asset is not effectively owned when the asset is held in an individual's name, but (a) the asset and any income it earns accrue to the benefit of someone else who is not a member of the family, and (b) that other person is responsible for income taxes incurred on income generated by the assets.

3. Determining which individuals have ownership of an asset requires collecting as much information as is available and making the best judgment possible based on that information.

Example – Determining the Cash Value of an Asset

The "cash value" of an asset is the amount a family would receive if the family turned a noncash asset into cash.

The cash value is the market value—or the amount another person would pay to acquire the asset—less the cost to turn the asset into cash.

If a family owns real estate, it may be necessary to consider the family's equity in the property as well as the expense to sell the property.

To determine the family's equity, subtract amounts owed on the property from its market value:

Market value
\- Mortgage amount owed
Equity in the property

Calculate the cash value by subtracting the expense of selling the property:

Equity
\- Expense of selling
Cash Value

Juanita Player owns a rental house. The market value is $100,000. She owes $60,000. The cost to dispose of this house would be $8,000. The owner would determine the cash value as follows:

Market Value	$100,000
Mortgage amount	- $60,000
	40,000
Cost of disposing of the asset (real estate commission, and other costs of sale)	- $8,000
Cash Value	**$32,000**

a. In some instances, but not all, knowing whose social security number is connected with the asset may help in identifying ownership. Owners should be aware that there are many situations in which a social security number connected with an asset does not indicate ownership and other situations where there is ownership without connection to a social security number.

b. Determining who has contributed to an asset or who is paying taxes on the asset may assist in identifying ownership.

Examples – Jointly Owned Assets

- Helen Wright is an assisted-housing tenant. She and her daughter, Elsie Duncan, have a joint savings account. Mother and daughter both contribute to the account. They have used the account for trips together and to cover emergency needs for either of them. Assume in this example that state law does not specify ownership. Even though either Helen Wright or Elsie Duncan could withdraw the entire asset for her own use, count Helen's ownership as 50% of the account.
- Jean Boucher's name is on her mother's savings account to ensure that she can access the funds for her mother's care. The account is not effectively owned by Jean and should not be counted as her asset.

E. Calculating Income from Assets When Assets Total $5,000 or Less

If the total cash value of all the family's assets is $5,000 or less, the actual income the family receives from assets is the amount that is included in annual income as income from assets.

F. Calculating Income from Assets When Assets Exceed $5,000

1. When net family assets are more than $5,000, annual income includes the greater of the following:

   a. Actual income from assets; or

   b. A percentage of the value of family assets based upon the current passbook savings rate as established by HUD. This is called *imputed* income from assets. The passbook rate is currently set at 2%.

2. To begin this calculation, first add the cash value of all assets. Multiply the total cash value of all assets by .02. The product is the "imputed income" from assets. Then, add the actual income from all assets. The greater of the imputed income from assets or the actual income from assets is included in the calculation of annual income.

Example – Use Actual Income from Assets When Total Net Family Assets are $5,000 or Less

Type of Asset	Cash Value	Actual Yearly Income
Certificate of Deposit $1,000 withdrawal fee $50 interest @ 4%	$950	$40
Savings Account $500 interest @ 2.5%	$500	$13
Stock $300 Not paying dividends	$300	$0
Total	$1,750	$53

The total cash value of the family's assets is $1,750. Therefore, the amount that is added to annual income as income from assets is the actual income earned or $53.

Example – Imputed Income from Assets

"Imputed" means "attributed" or "assigned." Imputing income from assets is "assigning" an amount of income solely for the sake of the annual income calculation. The imputed income is not real income.

For example, money under a mattress is not earning income. If the money were put in a savings account it would earn interest. Imputed income from such an asset is the interest the money would earn if it were put in a savings account.

A family with cash under a mattress is not required to put the cash in a savings account; but when the owner is calculating income for a family with more than $5,000 in assets, the owner must assign an amount that cash would earn if it were in a savings account.

**Example – Determining Income from Assets
When Net Family Assets Exceed $5,000**

Type of Asset	Cash Value	Actual Yearly Income
Checking Account (non-interest bearing)	$455	$0
Savings Account (interest at 2.5%)	$6,000	$150
Stocks (not paying dividends this year)	$3,000	$0
Total	$9,455	$150

Total cash value of assets is greater than $5,000. Therefore, it is necessary to compare the actual income from assets to the imputed income from assets.

The total cash value of assets ($9,455) is multiplied by 2% to determine the imputed income from assets.

.02 x $9,455 = $189

$189 is greater than the actual income from assets ($150).

In this case, therefore, the owner will add $189 to the annual income calculation as income from assets.

G. Calculating Income from Assets - Specific Types of Assets

1. Trusts.

   a. Explanation of trusts.

   (1) A trust is a legal arrangement generally regulated by state law in which one party (the creator or grantor) transfers property to a second party (the trustee) who holds the property for the benefit of one or more third parties (the beneficiaries). A trust can contain cash or other liquid assets or real or personal property that could be turned into cash. Generally, the assets are invested for the benefit of the beneficiaries.

   (2) Trusts may be revocable or nonrevocable. A revocable trust is a trust that the creator of the trust may amend or end (revoke). When there is a revocable trust, the creator has access to the funds in the trust account. When the creator sets up a nonrevocable trust, the creator has no access to the funds in the account.

   (3) The beneficiary frequently will be unable to touch any of the trust funds until a specified date or event (e.g., the

beneficiary's 21st birthday or the grantor's death). In some instances, the beneficiary may receive the regular investment income from the trust but not be able to withdraw any of the principal.

(4) The beneficiary and the grantor may be members of the same family. A parent or grandparent may have placed funds in trust to a child. If the trust is revocable, the funds may be accessible to the parent or grandparent but not to the child.

b. How to treat trusts.

(1) The basis for determining how to treat trusts relies on information about who has access to either the principal in the account or the income from the account.

(2) Revocable trusts. If any member of the tenant family has the right to withdraw the funds in the account, the trust is considered to be an asset and is treated as any other asset. The cash value of the trust (the amount the family member would receive if he or she withdrew all that could be withdrawn) is added to total net assets. The actual income received is added to actual income from assets.

Example – A Trust Accessible to Family Members

Assez Charaf lives alone. He has placed $20,000 in trust to his grandson to be available to the grandson upon the death of Assez. The trust is revocable, that is, Assez has control of the principal and interest in the account and can amend the trust or remove the funds at any time. In calculating Assez's income, the owner will add the $20,000 to Assez's net family assets and the actual income received on the trust to actual income from assets.

(3) Nonrevocable trusts. If no family member has access to either the principal or income of the trust at the current time, the trust is not included in the calculation of income from assets or in annual income.

If only the income (and none of the principal) from the trust is currently available to a family member, the income is counted in annual income, but the trust is not included in the calculation of income from assets.

(4) Nonrevocable trust as an asset disposed of for less than fair market value. If a tenant sets up a nonrevocable trust for the benefit of another person while residing in assisted

housing, the trust is considered an asset disposed of for less than fair market value (see subparagraph G.6 below).

- If the trust has been set up so income from the trust is regularly reinvested in the trust and is not paid back to the creator, the trust is calculated as any other asset disposed of for less than fair market value for two years and not taken into consideration thereafter.

Example – Nonrevocable Trust As an Asset Disposed of for Less Than Fair Market Value

Sarah Gordy placed $100,000 in a nonrevocable trust for her grandson. Last year, the trust produced $8,000, which was reinvested into the trust.

The trust is treated as an asset disposed of for less than fair market value for two years. (See paragraph 5.7 G.6.) No actual income from the trust is included in Sarah's annual income, but the value of the asset when it was given away, $100,000, is included in net family assets for two years from the date the trust was established.

- Nonrevocable trust distributing income. When a tenant places an asset in a nonrevocable trust but continues to receive income from the trust, the income is added to annual income *and* the trust is counted as an asset disposed of for less than market value for two years. Following the two-year period, the owner will count only the actual income distributed from the trust to the tenant.

Example – Nonrevocable Trust Distributing Income to the Creator/Tenant

Reggie Bouchard has established a nonrevocable trust in the amount of $35,000 that no one in the tenant family controls. Income from the trust is paid to Reggie. Last year, he received $3,500.

The owner will count Reggie's actual anticipated income from the trust in next year's annual income.

Because the asset was disposed of for less than fair market value (see paragraph 5.7 G.6), the value of the asset given away, $35,000, is counted as an asset disposed of for less than fair market value for two years.

(5) Payment of principal from a trust. The beneficiary of a trust may receive funds from the trust in different ways. A beneficiary may receive the full value of a trust at one time. In that instance the funds would be considered a lump sum receipt and would be treated as an asset. A trust set up to provide support for a person with disabilities may pay only income from the trust on a periodic basis. Occasionally, however, a beneficiary may be given a portion of the trust principal on a periodic basis. When the principal is paid out on a periodic basis, those payments are considered regular income or gifts and are counted in annual income.

Example – Payment of Principal Amounts from a Trust

Jared Leland receives funds from a nonrevocable trust established by his parents for his support. Last year he received $18,000 from the trust. The attorney managing the trust reported that $3,500 of the funds distributed was interest income and $14,500 was from principal. Jared receives a payment of $1,500 each month (an amount that includes both principal and interest from the trust).

The owner will count the entire $18,000 Jared received as annual income.

c. Special needs trusts.

A special needs trust is a trust that may be created under some state laws, often by family members for disabled persons who are not able to make financial decisions for themselves. Generally, the assets within the trust are not accessible to the beneficiary.

(1) If the beneficiary does not have access to income from the trust, then it is not counted as part of income.

(2) If income from the trust is paid to the beneficiary regularly, those payments are counted as income.

Example – Special Needs Trust

Daryl Rockland is a 55-year-old person with disabilities, living with his elderly parents. The parents have established a special-needs trust to provide income for their son after they are gone. The trust is not revocable; neither the parents nor the son currently have access to the principal or interest. In calculating the income of the Rocklands, the owner will disregard the trust.

2. Annuities.

a. Annuity facts and terms.

(1) An annuity is a contract sold by an insurance company designed to provide payments, usually to a retired person, at specified intervals. Fixed annuities guarantee a certain payment amount, while variable annuities do not, but have the potential for greater returns.

- A hybrid annuity (also called a combination annuity) combines the features of a fixed annuity and a variable annuity.

- A deferred annuity is an annuity that delays income payments until the holder chooses to receive them. An immediate annuity is one that begins payments immediately upon purchase.

- A life annuity continues to pay out as long as the owner is alive. A single-life annuity provides income benefits for only one person. A joint life annuity is issued on two individuals, and payments continue in whole or in part as long as either individual is alive.

(2) Generally, a person who holds an annuity from which he or she is not yet receiving payments will also be earning income. In most instances, a fixed annuity will be earning interest at a specified fixed rate similar to interest earned by a CD. A variable annuity will earn (or lose) based on market fluctuations, as in a mutual fund.

(3) Most annuities charge surrender or withdrawal fees. In addition, early withdrawal usually results in tax penalties.

(4) Depending on the type of annuity and the current status of the annuity, the owner will need to ask different questions of the verification source, which will normally be the applicant or tenant's insurance broker.

b. Income after the holder begins receiving payments.

(1) When verifying an annuity, owners should ask the verification source whether the holder of the annuity has the right to withdraw the balance of the annuity. For annuities without this right, the annuity is not treated as an asset.

(2) Generally, when the holder has begun receiving annuity payments, the holder can no longer convert it to a lump sum of cash. In this situation, the holder will receive regular payments from the annuity that will be treated as regular income, and no calculations of income from assets will be made. **

c. Calculations when an annuity is considered an asset.

(1) When an applicant or tenant has the option of withdrawing the balance in an annuity, the annuity will be treated like any other asset. **It will be necessary to determine the cash value of the annuity in addition to determining the actual income earned.

(2) In most instances, an annuity from which payments have not yet been made is earning income on the balance in the annuity. A fixed annuity will earn income at a fixed rate in the same manner that a CD earns income. A variable annuity will earn (or lose) based on current market conditions, as with a mutual fund.

(3) The owner will need to verify with the insurance agent or other appropriate source:

- The right of the holder to withdraw the balance (even if penalties are involved).
- The basis on which the annuity may be expected to grow during the coming year.
- The surrender or early withdrawal penalty fee.
- The tax rate and the tax penalty that would apply if the family withdrew the annuity.

(4) The cash value will be the full value of the annuity, less the surrender (or withdrawal) penalty, and less any taxes and tax penalties that would be due.

(5) The actual income is the balance in the annuity times the percentage (either fixed or variable) at which the annuity is expected to grow over the coming year. (This money will be reinvested into the annuity, but it is still considered actual income.)

(6) The imputed income from the asset is calculated only after the cash value of all family assets has been determined.

imputed income from assets is calculated on the total cash value of all family assets.

3. Lump sum receipts counted as assets.

a. Commonly, when a family receives a large amount of money, a lump sum payment, the family will put the money in a checking or savings account, or will purchase stocks or bonds or a CD. Owners must count lump sum payments received by a tenant as assets. Examples of lump sum payments include the following:

(1) Inheritances;

(2) Capital gains;

(3) Lottery winnings paid in one payment;

(4) Cash from the sale of assets;

(5) Insurance settlements (including health and accident insurance, workers compensation, and personal and property losses); and

(6) Any other amounts that are received in one-time lump sum payments.

Example – Calculating the Cash Value of an Annuity

Rodrigo Ramirez, site manager at Fernwood Forrest, has interviewed Barbara Barstow, an applicant who reports holding an annuity from which she will not receive payments for another 15 years when she turns 65. The applicant could not provide any more detail on the annuity but did report the name, address, and phone number of her insurance agent.

Rodrigo called the insurance agent and faxed a copy of the applicant's approval for release of information. As a result, Rodrigo learned that the annuity is a fixed annuity, with a current value of $20,400 earning interest at an annual rate of 4.5%. The applicant could withdraw the current balance in the account but would pay a surrender penalty of $3,000. If the annuity is withdrawn, then the applicant will owe $1,200 in tax penalties.

In this example, the important information for calculating cash value is the current value, $20,400; the surrender fee, $3,000; and the tax penalties, $1,200. If the applicant withdrew the cash from the annuity, after paying the surrender fee and tax penalty, then the amount of cash received would be $16,200.

The cash value, $16,200, is recorded as an asset.

Rodrigo will also calculate the actual anticipated income on this asset: $20,400 x .045 = $918.

b. A lump sum payment is counted as an asset only as long as the family continues to possess it. If the family uses the money for something that is not an asset—a car or a vacation or education—the lump sum must not be counted.

c. It is possible that a lump sum or an asset purchased with a lump sum payment may result in enough income to require the family to report the increased income before the next regularly scheduled annual recertification. But this requirement to report an increase in income before the next annual recertification would not apply if the income from the asset was not measurable by the tenant (e.g., gems, stamp collection).

Examples – Lump Sum Additions to Family Assets (One-Time Payment)

- JoAnne Wettig won $500 in the lottery and received it in one payment. Do not count the $500 as income. At JoAnne's next annual recertification, she will report all of her assets.
- Mia LaRue, a tenant in a Section 8 property, won $75,000 in one payment in the lottery. She buys a car with some of the money, and puts the remaining amount of $24,000 in the bank. Mia receives her first bank statement and notices that the income on this asset is $205 per month. She must report this increase in income because the family has experienced a cumulative increase in income of more than $200 per month. (See paragraph 7-10 A.4 on rules for reporting interim increases in income.) The owner must perform an interim recertification and count the greater of the actual or imputed income on this asset (since the net family assets are greater than $5,000).

4. Balances held in retirement accounts.

a. Balances held in retirement accounts are counted as assets if the money is accessible to the family member. For individuals still employed, accessible amounts are counted even if withdrawal would result in a penalty. However, amounts that would be accessible only if the person retired are not counted.

b. IRA, Keogh, and similar retirement savings accounts are counted as assets, even though withdrawal would result in a penalty.

c. Include contributions to company retirement/pension funds:

(1) While an individual is employed, count only amounts the family can withdraw without retiring or terminating employment.

(2) After retiring or terminating employment, count as an asset any amount the employee elects to receive as a lump sum.

d. Include in *annual income* any retirement benefits received through periodic payments.

Examples – Balances Held in an IRA or 401K Retirement Account

- Jed Dozier's 401K account balance is $35,000. He is able to terminate his participation in the retirement plan without quitting his job, but if he did so he would lose a part of his employer's contribution and would pay a penalty fee. The total cash he could withdraw, $18,000, is the amount that is counted as an asset.

5. *Federal Government/Uniformed Services Pensions

In instances where the applicant/tenant is a retired Federal Government/Uniformed Services employee receiving a pension that is* determined by a state court in a divorce, annulment of marriage, or legal separation proceeding to be a marital asset and the court provides OPM with the appropriate instructions to authorize OPM to provide payment of a portion of the retiree's pension to a former spouse, that portion to be paid directly to the former spouse is not counted as income for the applicant/tenant. However, where the tenant/applicant is the former spouse of a retired Federal Government/Uniformed Services employee, any amounts received pursuant to a court ordered settlement in connection with a divorce, annulment of marriage, or legal separation are reflected on a Form-1099 and is counted as income for the applicant/tenant. (See Paragraph 5-6.K.4 for more information on Federal Government/Uniformed Services pension funds paid to a former spouse.)

6. *Other state, local government, social security or private pensions.

Other state, local government, social security or private pensions where pensions are reduced due to a court ordered settlement in connection with a divorce, annulment of marriage, or legal separation and paid directly to the former spouse are not counted as income for the applicant/tenant and should be handled in the same manner as 5, above.*

7. Mortgage or deed of trust.

a. Occasionally, when an individual sells a piece of real estate, the seller may loan money to the purchaser through a mortgage or deed of trust. This may be referred to as a "contract sale."

b. A mortgage or deed of trust held by a family member is included as an asset. Payments on this type of asset are often received as one combined payment that includes interest and principal. The value of the asset is the unpaid principal as of the effective date of the certification. Each year this balance will decline as more principal is paid off. The interest portion of the payment is counted as actual income from an asset.

8. <u>Assets disposed of for less than fair market value</u>. Applicants and tenants must declare whether an asset has been disposed of for less than fair market value at each certification and recertification. Owners must count assets disposed of for less than fair market value during the two years preceding certification or recertification. The amount counted as an asset is the difference between the cash value and the amount actually received. (This provision does not apply to families receiving only BMIR assistance.)

a. Any asset that is disposed of for less than its full value is counted, including cash gifts as well as property. To determine the amount that has been given away, owners must compare the cash value of the asset to any amount received in compensation.

b. However, the rule applies only when the fair market value of all assets given away during the past two years exceeds the gross amount received by more than $1,000.

Examples – Assets of More or Less Than $1,000 Disposed of for Less Than Fair Market Value

- During the past two years, Alexis Turner donated $300 to the local food bank, $150 to a camp program, and $200 to her church. The total amount she disposed of for less than fair market value is $650. Since the total is less than $1,000, the donations are not treated as assets disposed of for less than fair market value.
- Jackson Jones gave each of his three children $500. Because the total exceeds $1,000, the gifts are treated as assets disposed of for less than fair market value.

c. When the two-year period expires, the income assigned to the disposed asset also expires. If the two-year period ends in the middle of a recertification year, the tenant may request an interim recertification to remove the disposed asset(s). * However, if the owner elects to only include the income for a partial remaining year as shown in the example below, an interim recertification should not be conducted.*

Example – Asset Disposed of for Less Than Fair Market Value

Margot Lundberg's recertification will be effective January 1. On that date, it will be 18 months since she sold her house to her daughter for $60,000 less than its value. The owner will count income on the $60,000 for only six months. (After six months, the two-year limit on assets disposed of for less than fair market value will have expired.)

d. Assets disposed of for less than fair market value as a result of foreclosure, bankruptcy, divorce, or separation are *not* counted.

e. Assets placed in nonrevocable trusts are considered as assets disposed of for less than fair market value except when the assets placed in trust were received through settlements or judgements.

f. Applicants and tenants must sign a self-verification form at their initial certification and each annual recertification identifying all assets that have been disposed of for less than fair market value or certifying that no assets have been disposed of for less than fair market value.

g. Owners need to verify the tenant self certification only if the information does not appear to agree with other information reported by the tenant/applicant.

Examples – Asset Disposed of for Less Than Market Value

(1) An applicant "sold" her home to her daughter for $10,000. The home was valued at $89,000 and had no loans secured against it. Broker fees and settlement costs are estimated at $1,800.

$89,000	Market value
- 1,800	Fees
$87,200	Cash value
- 10,000	Sales price to daughter
$77,200	Asset disposed of for less than fair market value

In this example, the asset disposed of for less than fair market value is $77,200. That amount is counted as the resident's asset for two years from the date the sale took place.

(The $10,000 received from the daughter may currently be in a savings account or other asset or may have been spent. The $10,000 will be counted as an asset if the applicant has not spent the money.)

(2) A resident contributed $10,000 to her grandson's college tuition and gave her two granddaughters $4,000 each to save for college.

$10,000	College tuition gift
+ 8,000	Gift to granddaughters
$18,000	Asset disposed of for less than fair market value

The $18,000 disposed of for less than fair market value is counted as the tenant's asset for two years from the date each asset was given away.

Section 2: Determining Adjusted Income

Section 2 does not apply to families applying for or occupying 221(d)(3) BMIR units without additional subsidy.

5-8 Key Regulations

This paragraph identifies the key regulatory citation pertaining to Section 2: Determining Adjusted Income. The citation and its topic are listed below.

- 24 CFR 5.611 Adjusted Income

5-9 Key Requirements for Determining Adjusted Income

While PJs have the option of choosing one of three definitions of annual (gross) income to determine income eligibility of applicants to their HOME Program activities, certain rules and requirements apply regardless of the definition used. These overarching requirements include how to determine whose income to count, anticipate and verify income, and compare income to HUD income limits. This chapter reviews these requirements.

Determining Whose Income to Count

The HOME Program regulations require that income of all family members be included in the determination of income.

The Part 5 definition of annual income provides specific guidance pertaining to whose income in a household must be included in that calculation. Chapter Three reviews this in detail.

Anticipating Income

The HOME regulations at 24 CFR 92.203(d)(1) require that, for the purpose of determining eligibility for HOME assistance, a PJ must project a household's income in the future. To do so, a "snapshot" of the household's current circumstances is used to project future income. In general, a PJ should assume that today's circumstances will continue for the next 12 months, unless there is verifiable evidence to the contrary. For example, if a head of household is currently working for $7.00 per hour, 40 hours per week, the PJ should assume that this family member will continue to do so for the next year. Thus, estimated earnings will be $7.00 per hour multiplied by 2,080 hours, or $14,560 per year.

This method should be used even when it is not clear that the type of income received currently will continue in the coming year. For example, assume a family member has been receiving unemployment benefits of $100 per month for 16 weeks at the time of income certification. It is unlikely that the family member will continue on unemployment for another 52 weeks. However, because it is not known whether or when the family member will find employment, the PJ should use the current circumstances to anticipate annual (gross) income. Income would therefore be calculated as follows: $100 per week x 52 weeks, or $5,200.

The exception to this rule is when documentation is provided that current circumstances are about to change. For example, an employer might report that an employee currently makes $7.50 an hour, but a negotiated union contract will increase this amount to $8.25 an hour eight weeks from the date of assistance. In such cases, income can be calculated based on the information provided. In this example, the calculation would be as follows:

- $7.50/hour x 40 hours/week x 8 weeks = $2,400
- $8.25/hour x 40 hours/week x 44 weeks = $14,520
- $2,400 + $14,520 = $16,920.

Verifying Income

The HOME regulations at 24 CFR 92.203(a) require that PJs determine income eligibility of HOME applicants by examining source documents (such as wage statements or interest statements) as evidence of annual income.

PJs may develop their own verification procedures provided that they collect source documentation and that this documentation is sufficient for HUD to monitor program compliance. (Sample verification forms are provided in Appendix H.)

PJs may use two of the three verification procedures provided to public housing agencies (PHAs) for the Section 8 Program as a basis for developing their procedures. These forms of verification are third party verification and review of documents. (The third method provided to PHAs, applicant certification, does not provide adequate source documentation for the HOME Program.)

Third-Party Verification

Under this form of verification, a third party (e.g., employer, Social Security Administration, or public assistance agency) is contacted to provide information to verify income. Although written requests and responses are generally preferred, conversations with a third party are acceptable if documented through a memorandum to the file that notes the contact person, information conveyed, and date of call. In addition, a PJ may obtain third party written verification by facsimile, email, or Internet. The PJ must make adequate effort to ensure the sender is a valid third-party source.

To conduct third-party verifications, a PJ must obtain a written release from the household that authorizes the third party to release required information. (See Appendix H for a sample release form, "HOME Program Eligibility Release Form.")

Third-party verifications are helpful because they provide independent verification of information and permit the PJ to determine if any changes to current circumstances are anticipated. Some third-party providers may, however, be unwilling or unable to provide the needed information in a timely manner.

Some third-party providers (such as banks) may charge a fee to provide the information. In such cases, the PJ should attempt to find suitable documentation without the third-party verification – for example, bank statements or a savings passbook. If suitable documentation is not available, costs associated with third party verifications are eligible administrative or project expenses under the HOME Program; however, low-income beneficiaries must not be required to pay for verifications as a condition of receiving assistance.

Review of Documents

Documents provided by the applicant (e.g., pay stubs, tax returns, etc.) may be most appropriate for certain types of income and can be used as an alternative to third party verifications. (Note, however, that if a copy of a tax return is needed, IRS Form 4506 "Request for Copy of Tax Form" must be completed and signed.) Copies of documents should be retained in project files.

Although easier to obtain than third-party verifications, a review of documents provided by the applicant often does not provide all necessary information. For instance, an employed applicant's pay stubs may not provide sufficient information about the average number of hours worked, overtime, tips, and bonuses. In this case, the PJ may also need to contact the employer to accurately project annual income.

Assessing Information

PJs must assess all the facts underlying the income information collected. Below are some of the considerations PJs must take into account.

Pay period. The PJ should determine the basis on which employees are paid (hourly, weekly or monthly, and with or without overtime). An employee who gets paid "twice a month" may actually be paid either twice a month (24 times a year) or every two weeks (26 times a year).

An annual salary is counted as annual income regardless of the payment schedule. For example, if a teacher's annual salary is $30,000, this is the annual income regardless of whether the teacher is paid over a nine- or 12-month period.

Variations in pay. For applicants whose jobs provide steady employment (e.g., 40 hours a week, 50 weeks a year), it can be assumed that there will only be slight variations in the amount of earnings reflected in monthly or bi-weekly pay stubs. In such cases, three consecutive month's worth of income documentation is an appropriate amount upon which to base a projection of income over the following 12-month period.

For those whose annual employment is less stable or does not conform to a twelve-month schedule (e.g., seasonal laborers, construction workers, teachers), PJs should examine income documentation that covers the entire previous twelve-month period. Such workers can experience substantial variations in earned income over the course of a year. As such, an examination of three month's worth of income documentation may not provide an accurate basis upon which to project the applicant's income over the following 12 months.

Sources of earned income. In addition to hourly earnings, PJs must account for all earned income. In addition to the base salary, this will include annual cost of living adjustments (COLAs), bonuses, raises, and overtime pay. In the case of overtime, it is important to clarify whether overtime is sporadic or a predictable component of an employee's income. If it is determined that an applicant has earned and will continue to earn overtime pay on a regular basis, PJs should calculate the average amount of overtime pay earned by the applicant over the pay period the PJ is using to calculate income eligibility (3 months or 12 months). This average amount is then to be added to the total amount of projected earned income over the following 12-month period. Exhibit 2.1 provides a step-by-step explanation of the standard methodology for projecting annual income.

Comparing Annual Income to Published Income Limits

Once household and income information has been established and verified, a PJ must compare the information to the appropriate HUD income limits to determine if the household is eligible for participation in the HOME Program.

To determine eligibility, PJs must use a copy of the most recent HUD income limits, adjusted for family size and by geographic area (county or metropolitan area). The income limits are updated annually and are available through HUD offices or on the Internet at www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/income/index.cfm.

Exhibit 2.2 provides a sample income limits table.

Determining Household Size

The income limits are adjusted by household[7] size; therefore, one of the first steps in determining eligibility is to determine the size of the applicant household.

Some households may include persons who are not considered as family members for the purposes of determining household size and income eligibility, including:

- Foster children;
- Foster adults;
- Live-in aides; and
- Children of live-in aides.

These persons should not be counted as household members when determining household size, and their income, if any, is not included when calculating annual income.

A child who is subject to a shared-custody agreement in which the child resides with the household at least 50 percent of the time can be counted in the household.

Comparing Household Income to the HUD Limits

To compare a household's annual income information to the HUD income limits, follow these steps:

1. Find the geographic area in which the PJ is located on the HUD income limit chart.
2. Find the column that corresponds to the number of persons in the household (i.e., family size).

3. Compare the verified income of the household with the income limit for that household size.

Using the sample income limits chart in Exhibit 2.2, consider the following example:

> *Mr. and Mrs. Jackson have three children that permanently reside with them. It has been determined by the PJ staff that the Jackson's have an annual household income of $48,500. Based on the income limits, the Jackson family must have an income of less than $59,250 in order to participate in the HOME Program. Since the Jackson's income of $48,500 is less than the Low-Income Limit of $59,250, they are eligible for HOME assistance.*

Timing of Income Certifications

All households that receive HOME assistance must be income-eligible at the time assistance is provided. Generally, the HOME Program permits income verification dated no earlier than six months prior to receipt of assistance. Households must qualify as low-income at the time of occupancy or at the time HOME funds are invested, whichever is later.

A preliminary determination of eligibility should, however, be made much earlier in the process. Application processing is labor intensive. Early screening for income eligibility can eliminate excessive work in processing an ineligible applicant. For example, when considering an application from a developer to rehabilitate an existing rental project, it is important for a PJ to know whether the current tenants will continue to be eligible once HOME funds are invested in the project.

Establishing a deadline for formal eligibility determinations is a challenging part of the planning process. The formal determination of income eligibility must be made shortly before a household receives assistance. Because eligibility determination involves verification of income, waiting too long can delay a project. Conducting income certifications too early in the process, however, might mean that certifications become outdated and must be redone.

Income Certifications for Lease-Purchase or Contract-to-Purchase Housing

PJs have some flexibility when certifying the income of homebuyers in lease-purchase or contract-to-purchase programs. Homebuyers are required to qualify as low-income:

- In the case of a contract to purchase existing housing, at the time of purchase;
- In the case of a lease-purchase agreement for existing housing or for housing to be constructed, at the time the agreement is signed; or
- In the case of a contract to purchase housing to be constructed, at the time the contract is signed.

Income Recertification for Rental Housing

In addition to initial certifications at the time of eligibility determinations, tenants receiving TBRA or occupying HOME-assisted rental units must have their incomes recertified annually. Because new income certifications should be effective on each tenant's "anniversary date" (one year from the start of assistance or last recertification date), the income certification process should begin 60 to 90 days prior to that time.

For rental housing projects, the PJ must use one of the following three methods for recertifying tenant incomes:

- **Review of source documents.** This involves a review of source documentation, such as that done for a household's initial eligibility determination.
- **Statement and certification from the family.** This is a written statement from the family indicating family size and annual income. This must include a certification from the family that

information is complete and accurate, and must indicate that source documents will be provided upon request. A sample certification is provided in Appendix J.

- **Statement from another government program.** This is a written statement from the administrator of another government program under which the family receives benefits, and that examines the annual (gross) income of the family each year. The statement must indicate the family size, or provide the current income limit for the program and a statement that the family's income does not exceed that limit. A sample of this type of certification is found in Appendix J.

If the PJ chooses to allow rental project owners to accept the written statement from the family or other governmental entity at income recertification, it must require owners to review full source documentation every sixth year of the affordability period. For a rental project with a 20-year affordability period, for example, source documentation must be used to certify all tenants' income at initial lease-up, and in years six, 12 and 18 of the affordability period. In the other years, the family or government program statement may be accepted without further verification of income.

Exhibit 2.1 – Step-by-Step Methodology for Projecting Annual Income

Steps	Instructions
Step 1: Collect appropriate income documentation.	Appropriate documentation includes pay stubs, third-party verification, bank statements (checking and/or savings), or certified copies of tax returns. (These can be acquired by submitting an IRS Form 4506, "Request for Copy of Tax Form.")
Step 2: Calculate the applicant household's projected income based upon documentation.	This calculation must include hourly wage figures, overtime figures, bonuses, anticipated raises, COLAs, or other anticipated changes in income. Other specific inclusions must also be reflected in the calculation, depending upon which definition of annual income the PJ has elected to use for its program. Specific instructions for each of the three definitions of income under HOME are provided later in this guide.
Step 3: Compare the amount of projected income against current HOME income limits.	Once the PJ has calculated the household's income, based on its selected definition, it must compare the household's final projected figure to annual HOME income limits, which are adjusted according to household size. These limits are posted online at: www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/income/index/cfm. This information is also available through the CPD office of your state or local HUD Field Office. Households whose projected annual income is less than the current HOME income limits are eligible for HOME assistance.

Exhibit 2.2 – Sample Income Limits Schedule (FY 2004)
Area: Baltimore, MD

	Adjusted Income Limits							
	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
30% Limits	$14,400	$16,450	$18,500	$20,600	$22,250	$23,850	$25,500	$27,150
Very Low-Income (50% Limits)	$24,000	$27,450	$30,850	$34,300	$37,050	$39,800	$42,550	$45,300
60% Limits	$28,800	$32,940	$37,020	$41,160	$44,460	$47,760	$51,060	$54,360
Low-Income (80% Limits)	$38,400	$43,900	$49,400	$54,900	$59,250	$63,650	$68,050	$72,450

Last Modified: January 2005

Calculating Annual (Gross) Income

As discussed in Chapter One, the HOME Program gives PJs the flexibility to choose one of three definitions of annual income to determine whether households are eligible for participation in the HOME Program. The three definitions are:

1. Annual income as defined in 24 CFR Part 5 (Part 5 annual income);
2. Annual income as reported under the Census long form for the most recent decennial census; and
3. Adjusted gross income as defined for purposes of reporting under Internal Revenue Service (IRS) Form 1040 series for individual Federal annual income tax purposes.

PJs may use different definitions of income for each of the different HOME activities it administers. For example, a PJ may decide to use the Part 5 definition of income for its rental projects and TBRA program, and use the Census long form definition within its homebuyer and owner-occupied rehabilitation programs. However, PJs must ensure that applicants to their HOME-funded programs and activities are treated equitably. For this reason, the same income definition must be used within a particular program or activity. For example, if a PJ decides to use the Part 5 definition of annual income for its homebuyer program, it must use this definition for all applicants to the homebuyer program. It may not use the Census definition for one applicant and the Part 5 definition for another applicant.

Chapter Two discussed how and when income information must be verified. This chapter provides detailed guidance about calculating annual (gross) income using each of the three allowable definitions.

Definition 1: Annual Income as Defined in 24 CFR Part 5

The annual income definition found at 24 CFR Part 5 is used by a variety of Federal programs including Section 8, public housing and the Low-Income Housing Tax Credit Program. Annual income is used to determine program eligibility and, in some programs, the level of assistance the household will receive. This definition was formerly commonly referred to as the Section 8 definition.

The Part 5 definition of annual income is the *gross amount* of *income of all adult household members* that is *anticipated to be received* during the coming 12-month period. Each of the italicized phrases in this definition is key to understanding the requirements for calculating annual income:

- **Gross amount.** For those types of income counted, gross amounts (before any deductions have been taken) are used;
- **Income of all adult household members.** The Part 5 definition of annual income contains income "inclusions" – types of income to be counted – and "exclusions" – types of income that are not considered (for example, income of minors); and
- **Anticipated to be received.** The Part 5 annual income is used to determine eligibility and the amount of Federal assistance a family can receive. A PJ must, therefore, use a household's expected ability to pay, rather than past earnings, when estimating housing assistance needs.

Whose Income to Count

Knowing whose income to count is as important as knowing which income to count. Under the Part 5 definition of annual income, special consideration is given to income earned by the following groups of people:

- **Minors.** Earned income of minors, including foster children (age 18 and under) is not counted. However, unearned income attributable to a minor (e.g., child support, TANF payments and other benefits paid on behalf of a minor) is included;
- **Live-in aides.** If a household includes a paid live-in aide (whether paid by the family or a social service program), the income of the live-in aide, regardless of the source, is not counted. Except under unusual circumstances, a related person does not qualify as a live-in aide.
- **Persons with Disabilities.** During the annual recertification of a family's income, PJs are required to exclude from annual income certain increases in the income of a disabled member of qualified families residing in HOME-assisted housing or receiving HOME tenant-based rental assistance. 24 CFR 5.617(a) outlines the eligible increases in income. These exclusions from annual income are of limited duration. The full amount of increase to a qualified family's annual income is excluded for the cumulative 12-month period beginning on the date the disabled family member is first employed or the family first experiences an increase in annual income attributable to the employment. During the second cumulative 12-month period, the PJ is required to exclude from annual income 50 percent of any increase in income. The disallowance of increased income of an individual family member who is a person with disabilities is limited to a lifetime 48-month period.
- **Temporarily absent family members.** The income of temporarily absent family members is counted in the Part 5 definition of annual income – regardless of the amount the absent member contributes to the household. For example, a construction worker employed at a temporary job on the other side of the state earns $600 per week. He keeps $200 per week for expenses and sends $400 per week home to his family. The entire amount ($600 per week) is counted in the family's income;
- **Adult students living away from home.** If the adult student is counted as a member of the household in determining the household size (to compare against the HUD income limits), the first $480 of the student's income must be counted in the family's income. Note, however, that the $480 limit does not apply to a student who is the head of household or spouse (their full income must be counted); and
- **Permanently absent family members.** If a family member is permanently absent from the household (e.g., a spouse who is in a nursing home), the head of household has the choice of either counting that person as a member of the household, and including income attributable to that person as household income, or specifying that the person is no longer a member of the household.

Types of Income to Count

Exhibits 3.1 and 3.2 provide a comprehensive list of income that is included and excluded from calculations of annual income under Part 5. This list comes directly from the Federal regulations at 24 CFR 5.609. HUD updates this list when changes are made by Congress. Program administrators generally are expected to implement changes within 60 days of publication in the *Federal Register*.

In general, income exclusions fall into the following categories:

- Benefits that should not be counted as income;
- Income of certain household members that should not be counted, including earned income of minors and income attributable to foster children and live-in aides; and
- Amounts that are counted as assets rather than income, such as lump-sum lottery winnings.

Welfare Rent as Income

Welfare assistance is counted as income. Most PJs will use the actual gross amount of welfare assistance the household receives. In certain "as-paid" localities, however, a special calculation is required. In an as-paid jurisdiction, welfare assistance for housing costs is established separately from the rest of the welfare assistance and may be adjusted based on the actual cost of the family's housing.

PJs in as-paid jurisdictions must count as income the amount of general assistance a family receives plus the maximum amount of housing assistance the family *could* receive (rather than the amount the household is actually receiving).

Sample Format for Computing Part 5 Annual Income

Exhibit 3.3 shows a sample format for computing annual income using the Part 5 annual income definition.

Exhibits 3.4 through 3.7 provide examples and exercises that demonstrate how the Part 5 annual income definition is applied to individual family circumstances. Answers to the exercises are provided in each exhibit. These exhibits do not include income from assets, which is addressed below. Examples and exercises concerning asset calculation follow that discussion.

Treatment of Assets

Some assistance programs require that families "spend down" assets before they can participate. There is no asset limitation for participation in the HOME Program. Income from assets is, however, recognized as part of annual income under the Part 5 definition. To comply with the Part 5 rules regarding assets, PJs must know: (1) what to include as assets, (2) how to compute the market and cash value of those assets, and (3) how to determine the income from the asset to be included in annual income.

What to Include as an Asset

In general terms, an asset is a cash or non-cash item that can be converted to cash. Exhibit 3.8 summarizes items that are and are not to be considered assets. (Note: it is the income earned – e.g., interest on a savings account – not the value of the asset – that is counted in annual income.) Exhibits 3.9 through 3.11 provide examples and exercises that demonstrate how income from assets is calculated. Market Value and Cash Value Assets have both a market value and a cash value. The market value of an asset is simply its dollar value on the open market. For example, the market value of a share of stock is the price quoted on the stock exchange on a particular day. A property's market value is the amount it would sell for on the open market. This may be determined by comparing the property with similar, recently sold properties.

An asset's cash value is the market value less reasonable expenses required to convert the asset to cash, including:

- **Penalties or fees for converting financial holdings.** Any penalties, fees, or transaction charges levied when an asset is converted to cash are deducted from the market value to determine its cash value (e.g., penalties charged for premature withdrawal of a certificate of deposit, the transaction fee for converting mutual funds to cash or broker fees for converting stocks to cash); and/or
- **Costs for selling real property.** Settlement costs, real estate transaction fees, payment of mortgages/liens

against the property and any legal fees associated with the sale of real property are deducted from the market value to determine equity in real estate.

Under the rules of Part 5, only the cash value (rather than the market value) of an item is counted as an asset. If more than one person owns an asset, PJs must prorate the asset according to the applicant's percentage of ownership. If no percentage is specified or provided by state or local law, PJs must prorate the asset evenly among all owners. If an asset is not effectively owned by an individual, it is not counted as an asset.

Actual Income from Assets

Assets can generate income, and for the purpose of determining an applicant's income, the actual income generated by the asset (e.g., interest on a savings or checking account) is what counts, not the value of the asset. The income is counted, even if the household elects not to receive it. For example, if an applicant elects to reinvest the interest or dividends from an asset, it is still counted as income.

As with other types of income, the income included in annual income calculation is the income that is anticipated to be received from the asset during the coming 12 months. Several methods may be used to approximate the anticipated income from the asset. For example, to obtain the anticipated interest on a savings account, the current account balance can be multiplied by the current interest rate applicable to the account. Alternatively, if the value of the account is not anticipated to change in the near future and the interest rate has been stable, a copy of the IRS 1099 form showing past interest earned can be used.

Many PJs are surprised to learn that checking account balances (as well as savings account balances) are considered an asset. This rule is not intended to count monthly income as an asset, but rather, is recognition that some households keep assets in their checking accounts. To avoid counting monthly income as an asset, PJs should use the average monthly balance over a six-month period as the cash value of the checking account.

Two Unique Rules

For most assets, calculating cash value and the income from the assets is straightforward. Special rules have, however, been established to address two circumstances – situations in which the assets produce little or no income, and assets that are disposed of for less than fair market value.

When an Asset Produces Little or No Income

This rule assumes that a household with assets has an increased payment ability, even if its assets do not currently produce income. (For example, a household that owns land that is not rented or otherwise used to produce income.) Rather than require the household to dispose of the property, the rule requires that an "imputed" income be calculated based on a Passbook Rate that is applied to the cash value of all assets.

This rule only applies if the total cash value of **all** assets is more than $5,000. The following examples illustrate how imputed income from assets calculation is applied.

Example 1: The Cayhill family has $6,000 (average balance over six months) in a non-interest-bearing checking account. The PJ would include in annual income an amount based on the current Passbook Rate. The calculation would be: $6,000 x .02 = $120.

Example 2: The Shaw family has $3,000 (average balance over six months) in a non-interest-bearing checking account and $5,500 in an interest-bearing savings account. The family reports and the PJ verifies $150 interest on the savings account. The PJ would count the greater of the actual income from assets or the imputed income based on the Passbook Rate, as shown below:

Imputed income ($8,500 x .02) =	$170
Actual income	$150
Included in annual income	$170

Note: Currently, each Field Office establishes the passbook savings rate to be used by the PHAs within its jurisdiction. A Field Office determines the rate based on the average interest rate received on passbook savings accounts at several banks in the local area (24 CFR 5.609 and Form HUD-50058 Family Report Instruction Booklet,[8] p. 22). Although the new Public Housing Occupancy Guidebook,[9] page 122, footnote 35, states that "Consistent with the Multi-family Housing Program, PHAs will use a standard 2% passbook rate," the current method described above will remain in effect until superceded by PIH Notice. Check with your state or regional HUD Field Office for the applicable Passbook Rate for your community.

Example 3: The Smiths have $600 (average balance over six months) in a non-interest-bearing checking account. No income from assets would be counted because the family has no actual income from assets and the total amount of all assets is less than $5,000.

When Assets are Disposed of at Less than Fair Market Value

Applicants who dispose of assets for less than fair market value (i.e., value on the open market in an "arm's length transaction") have, in essence, voluntarily reduced their ability to afford housing. The Part 5 rules require, therefore, that any asset disposed of for less than fair market value during the two years preceding the income determination be counted as if the household still owned the asset.

The amount to be included as an asset is the difference between the cash value of the asset and the amount that was actually received (if any) in the disposition of the asset. Consider the following examples.

Example 1: Mr. Jones cashed in stock to give a granddaughter funds for college in August 2004. The stock had a market value of $4,500 and a broker fee of $500 was charged for the transaction.

Market value	$4,500
Less broker's fee	500
Cash value to be considered	$4,000

The $4,000 in assets would be counted for any income determination conducted until August 2006 (looking forward two years from the time of disposal).

If Mr. Jones has no other assets, no income from assets would be included in annual income because the cash value of the asset is less than $5,000. If other assets brought total assets to more than $5,000, however, the imputed income calculation described previously would be required.

Example 2: Mrs. Dutch "sold" a piece of property to a family member for $30,000 on July 1, 2004. The home was valued at $75,000 and had no loans against it.

Market value	$75,000
Less settlement costs	3,000
Less sales price	30,000
Cash value to be considered	$42,000

The $42,000 would be counted as an asset for any income determination conducted until July 1, 2006.

The $42,000 would be combined with the cash value of other assets (if any), and an imputed income calculation would be required.

Each applicant must certify whether an asset has been disposed of for less than fair market value. Assets disposed of for less than fair market value as a result of foreclosure or bankruptcy are not included in this calculation. In the case of a disposition as part of a separation or divorce settlement, the disposition will not be considered to be less than fair market value if the applicant receives (or received) important consideration not measurable in dollar terms.

Definition 2: Census Long Form Annual Income

Every ten years, the U.S. Bureau of the Census conducts a complete enumeration of all residents in the United States. This process involves gathering extensive information about people and where they live through the use of a detailed questionnaire, referred to as the Long Form. An entire section of the Long Form includes questions concerning household income. PJs may choose to use this definition of "annual income" when determining the eligibility of applicants to its HOME programs.

Types of Income to be Counted

Exhibit 3.12 lists what is and is not included in the annual income definition as set forth in the Long Form used in the 2000 census.

The list of income inclusions for the Census Long Form definition is very similar to the list of income inclusions under the Part 5 definition of annual income. However, Part 5 includes the income of minors and adults over the age of 18 whereas the Census Long Form definition includes the income of minors and adults over the age of 15.

Treatment of Assets

The primary difference between the Part 5 and Census Long Form definitions of annual income is in the treatment of assets. The asset calculation required when using the Part 5 definition is not necessary for the Long Form calculation of annual income. This is not to say that income from certain kinds of assets is not included in the Census Long Form definition of income. While the asset calculation is unique to the Part 5 definition, income generated by assets is still considered when calculating income under the Census (and IRS) definition of income.

As shown in Exhibit 3.12, the following types of income from assets are included in the Census Long Form definition of annual income:

- Interest;
- Dividends;
- Profit from royalties or real estate; and
- Income from payments from an estate or trust fund.

Income from some types of assets, however, is not included in the income calculation. Examples include:

- Withdrawals of savings;
- Capital gains (or losses) from the sale of homes, stock, and other property;
- Insurance settlements; and
- Assets disposed of for less than fair market value within two years prior to the income determination.

The treatment of assets is an important distinction PJs must consider when determining which definition of annual income to use.

Sample Format for Computing Census Long Form Annual Income

Exhibit 3.13 is a sample format for calculating annual income based on the Census Long Form definition. It is very similar to the sample format for Part 5 annual income except that the asset calculation information is not included.

Exhibit 3.14 provides an example of the Census Long Form annual income calculation.

Definition 3: IRS Form 1040 Adjusted Gross Income

Citizens of the United States and resident aliens, except those with gross incomes below a certain level, are required to file an income tax return with the Department of the Treasury's Internal Revenue Service (IRS) each year. The tax return is officially referred to as IRS Form 1040. The definition of adjusted gross income for the HOME Program is based on this form, also commonly referred to as "the long form." The definition set forth in the short form, known as the 1040EZ (known as "the short form"), may not be used to determine applicant eligibility.

IRS Form 1040 requires reporting of certain kinds of income, as the Part 5 and Census Long Form definitions of income discussed in this guide require, which are added together to constitute what is referred to as gross income. However, unlike the other two definitions of income, another step is required. From the gross income figure, certain deductions are taken to arrive at an adjusted gross income number. This is the figure that is used to determine an applicant's eligibility for participation in the HOME Program.

The term "adjusted gross income" as used when referring to the IRS Form 1040 definition of income should not be confused with adjusted income, which is calculated in accordance with the regulations at 24 CFR Part 5 and used to determine subsidy and payment levels. (Refer to Chapter 4).

Note: The HOME and CDBG Programs use the IRS definition of annual income in different ways:

- CDBG does not require use of the long form.
- CDBG allows tax returns as proof of income.
- Documentation for CDBG income qualification can be up to 12 months old.

Calculating Adjusted Gross Income

PJs must determine if an applicant household has any of the types of income included in the Form 1040 definition of income and what amount, if any, must be included when calculating gross income.

Exhibit 3.15 lists the types of income that are to be included in the calculation.

Once the gross income figure is obtained, applicable deductions must be subtracted to arrive at the household's adjusted gross income. The deductions are:

- IRA deductions,
- Medical savings account deductions,
- Moving expenses,
- One-half of self-employment taxes,
- Self-employed health insurance deductions,
- KEOGH and self-employed SEP and SIMPLE plans,
- Penalties on early withdrawal of savings, and
- Paid alimony.

To determine if a household may take any of these deductions and in what amount, the IRS Form 1040 instructions should be followed.

If the household has a Form 1040 that was submitted to the IRS for income tax purposes and the form is less than six months old, PJs may use the form to determine eligibility. Using the actual tax return has several implications. First, PJs must ensure that IRS Form 4506 "Request for Copy of Tax Form" is completed and signed. Secondly, PJs are required to determine if any of the circumstances as reported on the form have changed or will change in the upcoming 12 months and to make such adjustments. For example, if the applicant received a raise at his/her job since the tax return was submitted, the applicant's current income should be used to determine eligibility. Finally, PJs must ensure that everyone in the household is represented through the use of the tax return. For example, if a husband and wife file a joint return, but their adult son that resides with them files a separate return, the tax return of the husband and wife would not be sufficient for determining income.

Treatment of Assets

The primary difference between the Part 5 and IRS Form 1040 definitions of annual income is treatment of assets. The asset calculation required when using the Part 5 definition is not necessary for the IRS Form 1040 calculation of adjusted gross income. This is not to say that income from certain kinds of assets is not included in the IRS Form 1040 definition of income. While the asset calculation is unique to the Part 5 definition, income from certain assets must still be carefully considered when calculating income under the IRS (and Census) definition of annual income.

As shown in Exhibit 3.15, the following types of income from assets are included in the IRS Form 1040 definition of annual income:

- Taxable Interest;
- Dividends;
- Prizes, awards; and
- Gambling, lottery or raffle winnings.

Some types of assets, however, are not included in the income calculation. Examples include life insurance proceeds and inherited money or property.

The treatment of assets is an important distinction PJs must consider when determining which definition of annual income to use.

Sample Format for Computing IRS Form 1040 Adjusted Gross Income

Exhibit 3.16 is a sample format for computing IRS Form 1040 adjusted gross income. Exhibit 3.17 provides an example of how to calculate income using the IRS definition.

Comparison of the Three Definitions of Annual Income

As the exhibits on the following pages demonstrate, the definition of annual income that a PJ selects can affect the eligibility of certain households, depending on their particular financial circumstances. When deciding which definition(s) to use, the PJ may want to consider how it will use each definition, staff familiarity with any of the definitions, the types of income inclusions and exclusions for each definition, and the calculation of assets.

Using the Definitions

PJs must select one of the three definitions of income for each of their HOME-funded activities and apply that definition to all program applicants of each activity. For example, a PJ can choose to use the Part 5 definition of annual income for its homeownership program. If it does, it must apply this definition to all applicants to that program. It may not use the IRS Form 1040 definition of adjusted gross income for one household just because they do not qualify using the Part 5 definition of annual income. The PJ may, however, choose to use the IRS Form 1040 definition for all applicants to its homeowner rehabilitation program.

Familiarity and Consistency

While the HUD definition of income found in 24 CFR Part 5 may appear cumbersome on the surface, it has been used for many years in various HUD programs like Section 8 and public housing. Early on in the HOME Program, it was the only definition of annual income PJs were permitted to use. In addition, the HUD Part 5 definition of income is used in the Low Income Housing Tax Credit Program. This program is often used in combination with HOME Program funding in rental housing projects.

For these reasons, most PJs have experience with this definition, and many have developed administrative procedures and forms based on these rules and requirements. This existing expertise should be considered when making a decision about which definition to use.

Asset Calculation

The Part 5 definition of annual income requires the special computations concerning assets. The Census Long Form and IRS Form 1040 definitions do not require such calculations; however, income from certain kinds of assets may be included under these definitions.

Income Inclusions and Exclusions

There are some differences between the three definitions of income that can result in different income calculations. Some of the differences are illustrated in the following case studies (Exhibits 3.18 and 3.19). The three most significant differences between the three definitions are:

1. Child support payments are not included in the IRS Form 1040 definition of income.
2. The IRS Form 1040 definition allows the deduction of alimony payments.
3. Inheritances and insurance settlements are included in the Part 5 asset calculation, but not included in the Census or IRS definitions of income.

Exhibit 3.1 – 24 CFR Part 5 Annual Income Inclusions

1. The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.
2. The net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation of assets used in a business or profession may be deducted, based on straight-line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family.
3. Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in number 2 (above). Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the family. Where the family has net family assets in excess of $5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD.
4. The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount (except for certain exclusions, listed in Exhibit 3.2, number 14).
5. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay (except for certain exclusions, as listed in Exhibit 3.2, number 3).
6. Welfare Assistance. Welfare assistance payments made under the Temporary Assistance for Needy Families (TANF) program are included in annual income:
   - Qualify as assistance under the TANF program definition at 45 CFR 260.31; and
   - Are otherwise excluded from the calculation of annual income per 24 CFR 5.609(c).

   If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:
   - the amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; ***plus***
   - the maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is reduced from the standard of need by applying a percentage, the amount calculated under 24 CFR 5.609 shall be the amount resulting from one application of the percentage.
7. Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling.
8. All regular pay, special pay, and allowances of a member of the Armed Forces (except as provided in number 8 of Income Exclusions).

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Exhibit 3.2 – 24 CFR Part 5 Annual Income Exclusions

1. Income from employment of children (including foster children) under the age of 18 years.
2. Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).
3. Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains, and settlement for personal or property losses (except as provided in Exhibit 3.1, number 5 of Income Inclusions).
4. Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
5. Income of a live-in aide (as defined in 24 CFR 5.403).
6. Certain increases in income of a disabled member of qualified families residing in HOME-assisted housing or receiving HOME tenant-based rental assistance (24 CFR 5.671(a)).
7. The full amount of student financial assistance paid directly to the student or to the educational institution.
8. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
9. (a) Amounts received under training programs funded by HUD.

   (b) Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set side for use under a Plan to Attain Self-Sufficiency (PASS).

   (c) Amounts received by a participant in other publicly assisted programs that are specifically for, or in reimbursement of, out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and which are made solely to allow participation in a specific program.

   (d) Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed $200 per month) received by a resident for performing a service for the PHA or owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, resident initiatives coordination, and serving as a member of the PHA's governing board. No resident may receive more than one such stipend during the same period of time.

   (e) Incremental earnings and benefits resulting to any family member from participation in qualifying state or local employment training programs (including training not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment training program.
10. Temporary, nonrecurring, or sporadic income (including gifts).
11. Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.
12. Earnings in excess of $480 for each full-time student 18 years old or older (excluding the head of household or spouse).
13. Adoption assistance payments in excess of $480 per adopted child.
14. Deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts.
15. Amounts received by the family in the form of refunds or rebates under state or local law for property taxes paid on the dwelling unit.
16. Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.
17. Amounts specifically excluded by any other Federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions set forth in 24 CFR 5.609(c) apply. A notice will be published in the Federal Register and distributed to housing owners identifying the benefits that qualify for this exclusion.

Updates will be published and distributed when necessary. The following is a list of income sources that qualify for that exclusion:

- The value of the allotment provided to an eligible household under the Food Stamp Act of 1977;
- Payments to volunteers under the Domestic Volunteer Service Act of 1973 (employment through AmeriCorps, VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, youthful offender incarceration alternatives, senior companions);
- Payments received under the Alaskan Native Claims Settlement Act;
- Income derived from the disposition of funds to the Grand River Band of Ottawa Indians;
- Income derived from certain submarginal land of the United States that is held in trust for certain Indian tribes;
- Payments or allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program;
- Payments received under the Maine Indian Claims Settlement Act of 1980 (25 U.S.C. 1721);
- The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the U.S. Claims Court and the interests of individual Indians in trust or restricted lands, including the first $2,000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands;
- Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under the Federal work-study program or under the Bureau of Indian Affairs student assistance programs;
- Payments received from programs funded under Title V of the Older Americans Act of 1985 (Green Thumb, Senior Aides, Older American Community Service Employment Program);
- Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the In Re Agent Orange product liability litigation, M.D.L. No. 381 (E.D.N.Y.);
- Earned income tax credit refund payments received on or after January 1, 1991, including advanced earned income credit payments;
- The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990;
- Payments received under programs funded in whole or in part under the Job Training Partnership Act (employment and training programs for Native Americans and migrant and seasonal farm workers, Job Corps, veterans employment programs, state job training programs and career intern programs, AmeriCorps);
- Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation;
- Allowances, earnings, and payments to AmeriCorps participants under the National and Community Service Act of 1990;
- Any allowance paid under the provisions of 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran;
- Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of a crime against the applicant under the Victims of Crime Act; and
- Allowances, earnings, and payments to individuals participating in programs under the Workforce Investment Act of 1998.

Last Modified: January 2005

Exhibit 3.3 – Sample Format for Computing Part 5 Annual Income

1. Name:		2. Identification No.:	
ASSETS			
Family Member	Asset Description	Current Cash Value of Assets	Actual Income from Assets
3. Net Cash Value of Assets..............................		3.	
4. Total Actual Income from Assets..			4.
5. If line 3 is greater than $5,000, multiply line by ___ (Passbook Rate) and enter results here; otherwise, leave blank.			5.

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
					Enter the greater of lines 4 or 5 from above in e.
6. Totals	a.	b.	c.	d.	e.
7. Enter total of items from 6a. through 6e. This is *Annual Income*					7.

X________________________________
Signature

For Office Use Only

$__________ Income Limit
$__________ Income Limit of Household

Exhibit 3.4 – Calculating Part 5 Annual Income – Example

Family Members	Position in Family	Age	Income Sources
George Jefferson	Head	53	Works full-time at $7.25/hour; also receives $400/month from the government as a result of a settlement in the Agent Orange product liability litigation.
Eloise Jefferson	Spouse	48	Works 18 hours/week at a bank at $7.50/hour; also receives $50/month from her mother to help with expenses.
Lionel Jefferson	Son	19	Full-time student at City College where he has a part-time, 15-hour/week job in the student bookstore at $6.00/hour for the 46 weeks when classes are in session.

Under the HOME Program, the Income Limit for a family of three in the jurisdiction is $23,900. Are the Jefferson's eligible for HOME assistance? Assume for this example that the Jefferson's have no assets.

ANTICIPATED ANNUAL INCOME

Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
George	$15,080				Enter the greater of lines 4 or 5 from above in e.
Eloise	$7,020			$600	
Lionel	$480				
6. Totals	a. $22,580	b.	c.	d. $600	e. N/A
7. Enter total of items from 6a. through 6e. This is *Annual Income*					7. $23,180

This family is eligible for assistance because its total income of $23,180 is below the Low-Income Limit.

Explanation

George — George's earning from work count as income, but his income from the Agent Orange Settlement Fund ($4,800/year) does not. Thus, George's income is $7.25/hour x 40 hours/week x 52 weeks/year, or $15,080.

Eloise — Eloise's income from wages of $7.50/hour x 18 hours/week x 52 weeks, or $7,020. In addition, her regular gift income of $50/month or $600/year counts as income. (The gift income is counted as "other income.")

Lionel — Because Lionel is a full-time student and is not the head of household or spouse, only the first $480 of his earnings count toward the family income.

Exhibit 3.5 – Calculating Part 5 Annual Income – Exercise

Family Members	Position in Family	Age	Income Sources
Blanche Deverou	Head	55	Works 6 hours/night, 4 nights/week at $5.00/hour as a waitress; also earns an average of $55/night in tips.
Rose Nylen	Friend	58	Earns $6.50/hour as a full-time aide in a hospital; employer reports that her wages will increase to $6.75/hour, 7 weeks from the effective date of this calculation.
Dorothy Spornac	Friend	61	Earns $60/day as a substitute teacher, and works an average of 3 days/week for the 40 weeks school is in session (she made $7,200 last year); also receives $40/month in Food Stamps.
Under the HOME Program, the Income Limit for a household of three is $38,500. Assuming that these are the only sources of income, does the household qualify for assistance?			

Complete the following table to calculate annual income (as defined in 24 CFR Part 5) for the household. Answers are found on the following page.

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Blanche					Enter the greater of lines 4 or 5 from above in e.
Rose					
Dorothy					
6. Totals	a.	b.	c.	d.	e. N/A
7. Enter total of items from 6a. through 6e. This is *Annual Income*					7.

Exhibit 3.5 – Calculating Part 5 Annual Income – Exercise (continued)

ANSWERS

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Blanche	$17,680				Enter the greater of lines 4 or 5 from above in e.
Rose	$13,980				
Dorothy	$7,200				
6. Totals	a. $38,860	b.	c.	d.	e. N/A
7. Enter total of items from 6a. through 6e. This is *Annual Income*					7. $38,860

The household is not eligible for assistance. Its income exceeds the Low-Income Limit by $360.

Explanation

Blanche — Blanche's income must include both wages and tips. (The tips are included as wage/salary income.) Her wage income is $6,240 annually ($5.00/hour x 6 hours/night x 4 nights/week x 52 weeks/year) and her tip income is $11,440 annually ($55/night x 4 nights/week x 52 weeks/year).

Rose — Rose's wage income must be calculated in two steps. For the first 6 weeks of the year, she earns $6.50/hour. Her income at this wage is $6.50/hour x 40 hours/week x 6 weeks = $1,560. For the next 46 weeks, her wage will be $6.75/hour. Her income at this wage is $6.75/hour x 40 hours/week x 46 weeks = $12,420.

Dorothy — Dorothy made $7,200 last year, and there is no reason to expect that she will work more or less often in the coming year. Her income is, therefore, estimated at $7,200. Per the Income Exclusions (see Exhibit 3.2), the income she receives from Food Stamps is excluded from this calculation.

Exhibit 3.6 – Calculating Part 5 Annual Income – Example

Family Members	Position In Family	Age	Income Sources
Murphy Brown	Head	38	Earns $550 semi-monthly as a manager in the housewares department of the local Kmart, and receives $100/month in child support.
Eldon Bernakey	Boyfriend	36	Earns $250/week as a part-time painting instructor at the local school for the 40 weeks/year when school is in session; attends evening classes at the Art Institute, which he pays with a State Student Incentive Grant of $3,500; and pays $50/month in child support for his twins – when he can.
Avery Brown	Son	3	No income.

Under the HOME Program, the Income Limit for a family of three in the jurisdiction is $25,700. Is this household eligible for HOME assistance?

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Murphy	$13,200			$1,200	Enter the greater of lines 4 or 5 from above in e.
Eldon	$10,000				
6. Totals	a. $23,200	b.	c.	d. $1,200	e. N/A
7. Enter total of items from 6a. through 6e. This is *Annual Income*					7. $24,400

This family is eligible for assistance. Its total income is $24,400, which is below the Low- Income Limit.

Explanation

Murphy — Murphy's annual wage income is $550 semi-monthly x 24 periods/year, or $13,200. In addition, she receives $100/month x 12 months = $1,200/year. This is other income.

Eldon — Eldon's wage income is based on 40 weeks of work: $250/week x 40 weeks/year, or $10,000 annually. His scholarship does not count as income. The child support Eldon pays cannot be deducted from his income.

Exhibit 3.7 – Calculating Part 5 Annual Income – Exercise

Family Members	Position in Family	Age	Income Sources
Ricky Ricardo	Head	80	Receives gross Social Security in the amount of $625/month; receives a pension from the local musicians' union in the amount of $25 every quarter (3 months).
Lucy Ricardo	Spouse	79	Receives gross Social Security in the amount of $120/month; grossed $4,200 for giving voice lessons last year, but paid business expenses of $1,250 from this income for equipment and sound proofing.
Ricky Ricardo II	Child	45	Earns $330/week as an interpreter for a local nonprofit organization.

If the Low-Income Limit for a household of three is $30,000 and the Ricardo's have no other source of income, do they qualify for assistance?

Complete the following table to calculate annual income (as defined in 24 CFR Part 5) for the household. Answers are found on the following page.

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Ricky					Enter the greater of lines 4 or 5 from above in e.
Lucy					
Ricky II					
6. Totals	a.	b.	c.	d.	e. N/A
7. Enter total of items from 6a. through 6e. This is *Annual Income*					7.

Exhibit 3.7 – Calculating Part 5 Annual Income – Exercise (continued)

ANSWERS

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Ricky		$7,600			Enter the greater of lines 4 or 5 from above in e.
Lucy		$1,440		$2,950	
Ricky II	$17,160				
6. Totals	a. $17,160	b. $9,040	c.	d. $2,950	e. N/A
7. Enter total of items from 6a. through 6e. This is *Annual Income*					7. $29,150

The household is eligible for assistance.

Explanation

Ricky — Ricky's entire income is comprised of pensions and benefits. It equals $625/month x 12 months/year ($7,500) plus $25/quarter x 4 quarters/year ($100), or $7,600.

Lucy — Lucy's benefits income is $120/month x 12 months/year, or $1,440. Her net income from her business was $4,200 - $1,250, or $2,950. (Her equipment and soundproofing expense is an allowable deduction because the business funds were reinvested in the business and did not represent expansion. Refer to Exhibit 3.1)

Ricky II — Ricky II's income is wage income. The calculation is $330/week x 52 weeks/year = $17,160.

Exhibit 3.8 – Part 5 Annual Income Net Family Asset Inclusions and Exclusions

Inclusions	Exclusions
1. Cash held in savings accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 6-month balance. Assets held in foreign countries are considered assets. 2. Cash value of revocable trusts available to the applicant. 3. Equity in rental property or other capital investments. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs (e.g., broker fees) that would be incurred in selling the asset. Under HOME, equity in the family's primary residence is not considered in the calculation of assets for owner-occupied rehabilitation projects. 4. Cash value of stocks, bonds, Treasury bills, certificates of deposit, mutual funds, and money market accounts. 5. Individual retirement, 401(K), and Keogh accounts (even though withdrawal would result in a penalty). 6. Retirement and pension funds. 7. Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy). 8. Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc. 9. Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victim's restitution, insurance settlements and other amounts not intended as periodic payments. 10. Mortgages or deeds of trust held by an applicant.	1. Necessary personal property, except as noted in number 8 of Inclusions, such as clothing, furniture, cars, and vehicles specially equipped for persons with disabilities. 2. Interest in Indian trust lands. 3. Assets not effectively owned by the applicant. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household and that other person is responsible for income taxes incurred on income generated by the asset. 4. Equity in cooperatives in which the family lives. 5. Assets not accessible to and that provide no income for the applicant. 6. Term life insurance policies (i.e., where there is no cash value). 7. Assets that are part of an active business. "Business" does not include rental of properties that are held as an investment and not a main occupation.

Last Modified: January 2005

Exhibit 3.9 – Calculating Asset Income Under Part 5 – Example

Family Members	Assets	Asset Value
Juan Herrera	Checking account	$870 average 6-month balance with an interest rate of 2.7%.
	Inheritance	Received an inheritance of $30,000 that he used to buy a new car for $12,000; pay off his $3,000 credit card bill; and open a mutual fund account (which has no associated account costs) to invest the remaining $15,000 at an annual interest rate of 5.3%.
The HUD Passbook Rate is 2%.		

ASSETS			
Family Member	**Asset Description**	**Current Cash Value of Assets**	**Actual Income from Assets**
Juan Herrera	Checking account	$870	$23
Same	Mutual fund	$15,000	$795
3. Net Cash Value of Assets		3. $15,870	
4. Total Actual Income from Assets			4. $818
5. If line 3 is greater than $5,000, multiply line by <u>2%</u> (Passbook Rate) and enter results here; otherwise, leave blank.			5. $317

The asset income to be used in the annual income calculation is $818 since the actual income generated by the assets is greater than the imputed income.

Explanation

Checking account	The income from the checking account is calculated based on the 6-month balance and the interest rate ($870 x .027 = $23).
Inheritance	A car owned for personal use is not considered an asset. However, the mutual fund is an asset. $15,000 x .053 = $795.

Because the total cash value of the assets exceeds $5,000, the HUD Passbook Rate must be used to calculate the imputed income from all assets combined. In this case, $15,870 x .02 = $317. The actual income earned ($818) is greater, however, so that amount must be used in the calculation of annual income for this family.

Exhibit 3.10 – Calculating Asset Income (under Part 5) – Exercise

Family Members	Position in Family	Age	Family Assets	Asset Value
Archie Bunker	Head	72	Checking account	$595 average 6-month balance in a non-interest-bearing account.
Edith Bunker	Spouse	73	Savings account	$2,695 at 3.1%
HUD Passbook rate is 2%.				

Calculate the Bunkers' asset income by completing the following chart. Answers are provided below.

ASSETS			
Family Member	Asset Description	Current Cash Value of Assets	Actual Income from Assets
3. Net Cash Value of Assets................................		3.	[redacted]
4. Total Actual Income from Assets..			4.
5. If line 3 is greater than $5,000, multiply line by ____ (Passbook Rate) and enter results here; otherwise, leave blank.			5.

Asset Income to be used in annual income calculation: $____________

ANSWERS

ASSETS			
Family Member	Asset Description	Current Cash Value of Assets	Actual Income from Assets
Archie Bunker	Checking Account	$595	$0
Edith Bunker	Savings Account	$2,695	$84
3. Net Cash Value of Assets................................		3. $3,290	[redacted]
4. Total Actual Income from Assets..			4. $84
5. If line 3 is greater than $5,000, multiply line by ____ (Passbook Rate) and enter results here; otherwise, leave blank.			5. $0

The Bunkers' income from assets is $84.

Explanation

Use the actual income in this case, because the cash value of the Bunker's total assets is less than $5,000. The imputed income is only calculated for assets when the total cash value of all assets exceeds $5,000.

Exhibit 3.11 – Calculating Asset Income Under Part 5 – Exercise

Family Members	Position in Family	Age	Family Assets	Asset Value
Fred Mertz	Head	85	Rental property	Small rental property that grosses $6,500/year (expenses to keep up the property are $3,400/year). The property has a fair market value of $69,000, but they have a mortgage on the property in the amount of $35,000. The average closing cost in a real estate transaction is 8% in the area.
Ethel Mertz	Spouse	81	Savings account	Savings of $5,000 that earned $179 in interest during the past year.
			Stock	100 shares of stock in "Why Buy it, Inc.," with a face value of $4.25 per share, that have not shown a dividend in years. The cost to sell the stock would be about $76.
HUD Passbook rate is 2%.				

Calculate the Mertz's asset income by completing the following chart. Answers are provided on the following page.

ASSETS			
Family Member	Asset Description	Current Cash Value of Assets	Actual Income from Assets
3. Net Cash Value of Assets................................		3.	
4. Total Actual Income from Assets..			4.
5. If line 3 is greater than $5,000, multiply line by ____ (Passbook Rate) and enter results here; otherwise, leave blank.			5.

Asset Income to be used in annual income calculation: $____________

Exhibit 3.11 – Calculating Asset Income – Exercise (continued)

ANSWERS

ASSETS			
Family Member	**Asset Description**	**Current Cash Value of Assets**	**Actual Income from Assets**
Fred Mertz	Rental Property	$28,480	$3,100
Ethel Mertz	Savings Account	$5,000	$179
Same	Stock	$349	
3. Net Cash Value of Assets.................................		3. 33,829	
4. Total Actual Income from Assets...			4. $3,279
5. If line 3 is greater than $5,000, multiply line by <u>2%</u> (Passbook Rate) and enter results here; otherwise, leave blank.			5. $677

The asset income to be used in the annual income calculation is $3,279, since the actual income from assets is greater than the imputed income.

Explanation

Apartment Building — The cash value of the property is:

Market value	$69,000
Less mortgage	35,000
Less sales costs ($69,000 X .08)	<u>5,520</u>
Cash value	$28,480

The income earned is the net income ($6,500 – $3,400) of $3,100.

Savings Account — The information is provided.

Stock — The cash value of the stock is the sales proceeds (100 shares x $4.25/share = $425) less the cost to sell ($76). It generates no dividend income.

Because the total cash value of the assets exceeds $5,000, calculate the imputed income by multiplying the cash value by the HUD Passbook Rate ($33,829 x .02 = $677). This is less than the actual income earned of $3,279.

Federal regulations require us to request this information. We ask your cooperation in supplying this information. This information will be used only to determine the eligibility status and level of benefit and for statistical purposes.

Program ______________________________

Program Participant ______________________

Home Address ______________________

Family Size ______________________

Please circle gross income level of your family on the chart below.

2016 Income Limits-City of Cumberland

Income Level	1 Person	2 People	3 People	4 People	5 People	6 People	7 People	8 People
Extremely Low (30%)	$15,200	$17,350	$20,160	$24,300	$28,440	$32,580	$36,730	$40,890
Very Low	$25,250	$28,850	$32,450	$36,050	$38,950	$41,850	$44,750	$47,600
Low (80%)	$40,400	$46,200	$51,950	$57,700	$62,350	$66,950	$71,550	$76,200

RACE	Check All That Apply	
White		
Black or African American		
Asian		
American Indian or Alaskan Native		
Native Hawaiian or Other Pacific Islander		
American Indian or Alaskan Native & White		
Asian & White		
Black or African American & White		
Amer Indian or Alaskan Native & African Amer or Black		
Other Multi-Racial (Describe)		
White Hispanic		
Black or African American Hispanic		
HEAD OF HOUSEHOLD INFORMATION	Yes	No
Female		
Elderly		
Disabled		

I certify that this information is complete and accurate by signing below.

____

Signature (Required) Date

WARNING: Title 18, Section 1001 of the U.S. Code states that a person is guilty of a felony for knowingly and willingly making false or fraudulent statements to any department of the United States Government. 4/5/2016

CDBG Program

Family/Household Income Calculation Form [revised 5/2/2007]

Family/Household Name: ____________ Number in Family/Household: ____ Names of Members: ________, ________, ________
________, ________, ________
Address of Housing Unit [if housing]: ______________________ ________, ________, ________

Member Name	Income Source	Documentation Reviewed	Basis for Prevailing Rate	Prevailing Rate/Period	Annualizing Factor	Annualized Amount
				$______/	x _____	$____,______
				$______/	x _____	$____,______
				$______/	x _____	$____,______
				$______/	x _____	$____,______
				$______/	x _____	$____,______
				$______/	x _____	$____,______

___ If applicable, Asset Income (Part 5 Definition) [enter greater of total actual income from assets or net cash value of assets times passbook rate from second page] $____,______

Total Annual Income $____,______

CDBG Program

Family/Household Income Calculation Form (Cont.) – Assets (Part 5 Definition)

Member Name	Asset Description	Current Cash Value of Asset	Actual Income from Asset
________	________________________	$_____,_____	$___,_____
________	________________________		
________	________________________	$_____,_____	$___,_____
________	________________________		
________	________________________	$_____,_____	$___,_____
________	________________________		
________	________________________	$_____,_____	$___,_____
________	________________________		
________	________________________	$_____,_____	$___,_____
________	________________________		

Net Cash Value of Assets $_____,_____

Total Actual Income from Assets $___,_____

If net cash value of assets is greater than $5,000, multiply that figure by the prevailing passbook rate (currently .0052) [rate effective 3/30/2006] and enter results here: $___,_____; other wise, leave blank.

CDBG Program

Family/Household Income Calculation Form (example)

Family/Household Name: LowMod Number in Family/Household: 4 Names of Members: Bill, Sharon, Little Billy, Sharette

Address of Housing Unit [if housing]: 5555 Wrongway Drive

Member Name	Income Source	Documentation Reviewed	Basis for Prevailing Rate	Prevailing Rate/Period	Annualizing Factor	Annualized Amount
Bill	job at Rite Aid warehouse	pay vouchers for three consecutive pay periods ending 5/11/2003, 5/25/2003, and 6/8/2003	average of gross pay for three pay periods	$1250/ two weeks	x 26 =	$32,500
Sharon	child support for Sandy	award letter from Circuit Court dated 4/30/2003	monthly award	$300/ month	x 12 =	$ 3,600
Bill & Sharon	Bank of America money market account	quarterly statement dated 3/31/2003	interest for one quarter	$20/ quarter	x 4 =	$ 80
Total Annual Income						**$36,180**

Member Name	Asset Description	Current Cash Value of Asset	Actual Income from Asset
Bill & Sharon	Bank of America money market account paying 1.5% interest	$5,333	$80

Net cash value of asset $5,333 x .0052 (current passbook rate) = $27.73

[In this example, if using the Part 5 definition, you would include the actual income from assets, which is higher than the passbook value.]
[The current passbook rate, effective March 30, 2006, is .52% (.0052).]